THE FREEMAN

IDEAS ON LIBERTY

Undertaxed or Overspent?

Wage Earners and Employers

Democracy's Road to Tyranny

Vanishing Voluntarism

MAY 1988

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN

IDEAS ON LIBERTY

Undertaxed or Overspent?

Wage Earners and Employers

Democracy's Road to Tyranny

Vanishing Voluntarism

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN

IDEAS ON LIBERTY

1987

12 issues in one bound volume

Attractively sewn in a single volume with hard cover, the twelve issues from January through December 1987—488 pages, fully indexed for handy reference to the latest literature on freedom. More than 75 feature articles on topics such as agriculture, economic development, education, government regulation, labor, money, private property, prices, economic calculation, and international trade. Reviews of more than two dozen books.

Only $7.50 each

Note: This is the second in the series of bound volumes for the current larger sized *Freeman.* Bound volumes for the digest-sized *Freeman,* 1969 through 1985—plus the larger sized 1986 bound volume—are also available for $7.50 each.

FEE pays all postage on prepaid orders.

Order from:

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN

IDEAS ON LIBERTY

CONTENTS
MAY
1988
VOL. 38
NO. 5

166 **Undertaxed or Overspent?**
E. C. Pasour, Jr.
Tracking down the source of Federal deficits.

169 **The Brady Report: Threat to Stock Market Stability**
Christopher L. Culp
Proposals that would actually increase the likelihood of another crash.

172 **Wage Earners and Employers**
Ludwig von Mises
A transcription of a 1962 radio appearance, in print for the first time.

174 **Democracy's Road to Tyranny**
Erik von Kuehnelt-Leddihn
Three patterns of social change, all leading to totalitarian slavery.

178 **Mom's Monopoly, Part II**
Susan J. Osburn
Sam learns about prices and pricing.

180 **Caveat Emptor**
Walter Block
Has the notion of personal responsibility been banished from the legal scene?

182 **Vanishing Voluntarism**
James L. Payne
When "voluntary" agencies become government programs.

184 **The World Bank vs. the World's Poor**
James Bovard
Bankrolling a rush to socialism in the Third World.

188 **A Visit to Nicaragua**
Lawrence W. Reed
Under the Sandinistas, Nicaragua's economy is descending into utter chaos.

190 **Africa and the Difference Between Growing Food and Eating It**
David Osterfeld
Economic development is the answer to Africa's food crisis.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

198 Home-Based Work: New Opportunities for Women?
Joanne H. Pratt
Local, state, and Federal regulations threaten a growing sector of the economy.

200 Campus Activities: Who Pays the Bills?
Joseph S. Fulda
A remedy for some ills affecting student organizations.

202 Readers' Forum

203 Property Rights and Eminent Domain
John Hospers
An article-review examining Ellen Frankel Paul's natural rights theory of property rights.

206 A Reviewer's Notebook
John Chamberlain
A review of *Entrepreneurs vs. The State* by Burton W. Folsom, Jr.

208 Other Books
Marva Collins' Way by Marva Collins and Civia Tamarkin.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Op-Ed Update

FEE's op-ed program, in which we send *Freeman* articles to newspapers around the country, is entering its third year. In our first two years, we placed articles in more than 75 different newspapers, including *The Wall Street Journal, Chicago Tribune, Newsday, Detroit News, Chicago Sun-Times, Houston Chronicle, Cleveland Plain Dealer, Miami Herald, San Diego Union, Orange County Register, San Jose Mercury News, Indianapolis Star, Dayton Daily News, Charlotte Observer, Richmond Times-Dispatch, Allentown Morning Call, Colorado Springs Gazette, Canton Free Press, Washington Times,* and *The Phoenix Gazette.* We received more than 240 tearsheets representing a combined circulation of over 27 million.

We now are expanding this program to include Spanish translations of *Freeman* articles, which are being sent to Hispanic newspapers in the United States as well as to major newspapers in Latin America.

If you see one of our articles in your local paper, we would greatly appreciate it if you would send us a clipping.

—BJS

Economic Crime

It's a mad world, as Paul S. Columbus can attest. The California entrepreneur was just sentenced to two years in prison and fined $100,000 for trying to bring cheap Japanese-made computer chips into the U.S. It seems Mr. Columbus's effort violated the U.S.-Japan price-fixing accord that makes it illegal for Americans to buy chips at free-market (that is, lower) prices. We aren't surprised that a cartel should force U.S. consumers to look to the black market for chips, but it's still quite something to see the day arrive when the U.S. would start throwing people in prison for trying to serve those consumers.

—*The Wall Street Journal,* January 14, 1988

Silkworms or Textiles?

From the perspective of fundamental economic principles, one can often perceive connections between policies that might otherwise be overlooked.

Not long ago, for example, two articles regarding our relationships with China appeared virtually side-by-side in *The Wall Street Journal* (December 21, 1987, page 9). Although apparently devoted to separate topics, they are actually intimately interrelated.

First, the *Journal* reported new limits on China's textile exports to the United States. Under pressure from U.S. officials, the Chinese agreed to an annual growth rate of 3 per cent. This new rate does exceed the 1 per cent growth limit on textile imports from Hong Kong, Japan, South Korea, and Taiwan, but it falls dramatically below China's recent textile export growth rate of 19 per cent.

Just below this article, another piece provided more sinister news. U.S. satellite intelligence reports suggested that China might be shipping more sophisticated Silkworm missiles to Iran.

Of course, these two articles, thus juxtaposed, could provoke outrage. After all, here we are buying Chinese textiles, and what do they do? Arm our adversaries! Perhaps we should conclude that our 3 per cent limit on the growth of textile imports from China is too generous rather than too stingy!

But think again. Remember the basic economic dilemma taught during the first week of any introductory economics class: limited resources force us to choose between guns and butter. In the present context, this principle suggests that, if we would buy more textiles from the Chinese, they would have fewer resources available to devote to Silkworm production.

Furthermore, if we buy more Chinese goods such as textiles, the Chinese will earn more desperately needed foreign exchange which they can use to buy products from our export industries. New job opportunities would emerge to replace those lost for textile workers. Living standards would improve in China and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
President of the Board: Robert D. Love
Vice-President of Operations: Robert G. Anderson

Senior Editors: Beth A. Hoffman
Brian Summers

Book Review Editor: Edmund A. Opitz
Contributing Editors: Bettina Bien Greaves
Jacob G. Hornberger
Paul L. Poirot

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Bruce M. Evans, chairman; Thomas C. Stevens, vice-chairman; Joseph E. Coberly, Jr., vice-president; Don L. Foote, secretary; Lovett C. Peters, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies $1.00; 10 or more, 50 cents each. For foreign delivery, a donation of $15.00 a year is required to cover direct mailing costs.

Copyright © 1988 by the Foundation for Economic Education, Inc. Printed in U.S.A. Permission is granted to reprint any article in this issue, provided appropriate credit is given and two copies of the reprinted material are sent to The Foundation.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

in the U.S. as both countries concentrated on producing those items for which they have comparative advantages. These are the gains from free trade.

Here then is another example of the unintended but adverse effects of political meddling in the marketplace. If we really want the Chinese to produce fewer guns, shouldn't we butter up to them by buying more—not less—of their textiles?

—RUSSELL SHANNON
Clemson University

The Police Power

The only thing that distinguishes the institution of government from any and every other institution is its possession of police power. It alone has the legal right to incarcerate a person or even take a person's life. Therefore, the more we delegate to our government responsibility for different aspects of our individual and social lives and thereby expand the incidence of police power, the more we move toward a compulsory, authoritarian society and away from a free society. To be truly free we must limit government, i.e., police power, to the administration of justice, and thus provide that social order which is essential to free intercourse.

—MILLER UPTON

(Dr. Upton is former president of Beloit College in Wisconsin.)

The Communist Collapse

As governments in the East bloc have more and more difficulty supplying medical care, housing, and other social services, birth rates in all six countries are declining, despite generous new incentives for larger families. Life expectancy has dropped in some of the six countries —for example, in Hungary, from an average 67 to under 65—and families are feeling the pressure resulting from parents who hold two and sometimes three jobs apiece.

In these countries, where food, health, edu-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cation, public transportation and housing are heavily or totally subsidized, the squeeze on ordinary citizens is amplified by increases in the costs of some consumer goods and rents and, in the case of Hungary, a new income tax. In some East European hospitals, patients are now being asked to supply their own medicines.

Nowhere is the sense of deterioration more evident than in air and water pollution. For example, an official Slovak study concluded recently that Bratislava is the most severely polluted city in all of Europe. Instead of allowing the analysis to be made public, the Government pulped 2,000 copies and sought to sequester those remaining in circulation.

A Czech water quality specialist confided to a visitor that Prague's drinking water contained such a high level of toxins that infants in the capital were restricted to drinking bottled mineral water. To the north in the factory town of Usti nad Labem, air pollution has reached levels that compelled local school authorities to send pupils out of town to special education facilities for four months a year.

—DAVID BINDER,
writing in *The New York Times*,
January 6, 1988

Property and Propriety

Property is related to propriety, and is an ethical institution. It is a feature of our civilization.

The kinship of property with what is proper has been recognized from early times. It has been acknowledged by the people themselves in that genuine expression of popular feeling—language. It has been seen by our great thinkers. No matter what period or aspect of our civilization we may consider, we find that the institution of private property has been defended on grounds of justice, freedom, progress, peace and happiness. Often attacked and suppressed, ultimately free property emerged victorious.

—GOTTFRIED DIETZE,
In Defense of Property

The Will to Power

The chief danger to property has not been from the covetous neighbor nor from the habitual thief. It has been from the acquisitive and confiscatory activities of rulers. The Will to power, the temptation to exercise power simply because one has it, has led rulers to arbitrary interferences with liberty of the person. Covetousness has led them to arbitrary seizure of property. Both have joined to bring about arbitrary interferences with the liberty of using property. It is significant that the current of thought which is giving up the idea of property is also giving up the idea of liberty. As the two grew up together they are a common subject of attack by those who conceive the one must go with the fall of the other.

—ROSCOE POUND,
"The Law of Property
and Recent Juristic Thought,"
American Bar Association Journal (1939)

Available from FEE . . .

We have a limited number of copies of Burt Folsom's *Entrepreneurs vs. The State*, priced at $14.00. (See John Chamberlain's review on page 206.) Call or write FEE to reserve a copy.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Undertaxed or Overspent?

by E. C. Pasour, Jr.

Americans and many other members of the world economic community are worried about the U.S. government's budget deficits. The deficit in any year is the amount by which Federal expenditures exceed receipts. Recent turmoil in U.S. and other financial markets has been attributed to uncertainties about whether and how U.S. budget deficits will be reduced.[1]

There is widespread agreement that the deficit should be reduced but little agreement about how to do it. Much of the disagreement has been over whether the Federal deficit should be reduced by increasing taxes or by reducing spending. The factual question of whether budget deficits during the Reagan era have risen because of lower taxes or increased expenditures is important in the public policy debate.

Historical spending and revenue data cannot be used to justify current levels of expenditures or taxation. However, it is important that thoughtful citizens as well as those directly involved in deficit-cutting legislation be informed about the origins of the deficits. Have recent deficits been the result of taxes falling more than spending or of spending increasing more rapidly than taxes?

Public support for tax increases appears to be rooted in the widely held belief that the former explanation is correct. That is, rising budget deficits during the 1980s are considered to be the fruits of one aspect of "Reaganomics"—reductions in tax rates. The following analysis, contrary to the conventional wisdom and typical news story, demonstrates that Federal budget deficits have increased since 1980 because of increases in government expenditures—not because of reductions in tax revenues.

Dr. Pasour is a professor of economics at North Carolina State University at Raleigh.

Federal Expenditures and Receipts Since 1960

A historical perspective is helpful in studying the relationship between Federal taxes, expenditures, and budget deficits. The budget of the federal government was essentially balanced in 1960. Except for one year (1969), there has been a Federal budget deficit each year during the past quarter century. Indeed, budget deficits during the Reagan Administration have been considerably higher than during any other presidency since 1960. The annual budget deficit as a per cent of Gross National Product (GNP) averaged 4.8 per cent during the first 6 years of the Reagan Administration. In contrast, the deficit reached 4 per cent in only one year (1976) from 1960 to 1981.

Tax receipts as a percentage of GNP averaged 18.2 per cent during the 1960s, 18.3 per cent during the 1970s, and 18.8 per cent since 1980.[2] Thus, despite tax law changes, including significant reductions in tax rates in 1981, Federal tax receipts have increased, and have increased as a share of GNP as well, during the Reagan era. Rising tax receipts mean that increased deficits during this period were rooted in government spending policies.

There was a gradual and sustained increase

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in Federal expenditures during the 1960s and 1970s. Federal outlays as a per cent of GNP averaged 19.0 per cent during the 1960s and 20.7 per cent during the 1970s. Since 1980, however, Federal expenditures have increased dramatically—averaging 23.6 per cent of GNP.[3] Budget deficits have increased since 1980 because Federal spending has been outstripping tax receipts even though tax receipts are higher, absolutely and as a share of GNP, than they averaged from 1960 to 1980.

Interest Payments and Social Security Expenditures

Some analysts contend that rising budget deficits since 1980 are a result of too little taxation rather than of too much spending. A 1987 study by Citizens for Tax Justice, for example, claims that spending on Federal programs (excluding Social Security and interest payments on the national debt) has declined since 1980 as a share of GNP. In support of this argument, it is shown that total spending excluding interest expense and Social Security declined from 14.9 per cent in 1980 to 14.3 per cent in 1987.[4]

Citizens for Tax Justice attributes increased budget deficits of the 1980s to tax cuts for corporations and high income individuals that began in the late 1970s and accelerated in the early years of the Reagan presidency.[5] The prescription of the Citizens for Tax Justice group is higher taxes on corporations and wealthy individuals, instead of reduced spending for social programs to reduce the budget deficit.

The Citizens for Tax Justice analysis of Federal spending has two major shortcomings. First, even omitting interest expense and Social Security payments from Federal spending data, Federal spending as a share of GNP may not have decreased during the 1980s. For example, total spending as a proportion of GNP averaged 14.5 per cent from 1970 to 1980. Since 1981, however, it has averaged about 15 per cent. Thus, the contention that outlays on Federal programs adjusted in this way have uniformly decreased during the Reagan years is not correct, although this comparison is quite sensitive to the years selected. During the decade of the 1960s, for example, Federal spending, excluding interest expense and Social Security, was slightly higher (15.2 per cent versus 15.0 per cent), on average, than during the Reagan era.

The Citizens for Tax Justice approach to the analysis of government spending trends, however, ignores a more fundamental problem. Why should interest expense on the national debt and Social Security payments be omitted in analyzing trends in government spending? Net interest costs were three times as high in fiscal 1986 as in 1980—the last year of the Carter Administration. It is true that interest costs are determined by interest rates and the amount of debt and, in this sense, are beyond the control of Congress or the President. In a more fundamental sense, however, past government policies are responsible for the current level of debt, and present government policies influence both future levels of debt and current interest rates. Inflationary monetary and fiscal policies, for example, tend to raise interest outlays for any given level of debt.

Moreover, the distortions of economic activity associated with taxation are similar whether the tax receipts are used for interest payments on the debt or for any other program. Thus, we should include interest on government debt when analyzing trends in government spending.

The situation is similar for Social Security, even if the program is treated as a self-funding entity. From the standpoint of the individual participant, Social Security is a transfer program rather than an insurance program. Payments made to recipients are not actuarially determined by contributions, as they are in a bona fide insurance program. Thus, there is no reason to exclude Social Security taxes and payments in analyzing trends in Federal spending and taxation.

Conclusions and Implications

There is a great deal of concern but no consensus about the economic effects of increasing Federal deficits. The effects of higher deficits on economic activity, including interest rates, international trade, and private investment, are debated within the economics profession, and a summary of these issues is beyond the purview of this paper. However, Nobel Laureate James

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Buchanan makes a compelling argument that national debt (like private debt) incurred to finance consumption in some past period is tantamount to a reduction in net wealth. He concludes: "The issue of public debt to finance the great and continuing fiscal spree of the 1960s, 1970s and 1980s has been equivalent, in all relevant respects, to the destruction of capital value."[6]

Regardless of the economic effects of higher budget deficits, an analysis of the record of the past quarter century clearly reveals the *source* of the deficits. When compared with the 1960s and 1970s, Federal taxes as a per cent of GNP have *not* decreased during the 1980s, whereas Federal expenditures as a share of GNP have increased substantially during this period. Thus, the evidence strongly supports the conclusion of a recent Tax Foundation analysis of the increased budget deficits of the Reagan era: "We are not undertaxed but overspent."[7] □

1. Jeffrey H. Birnbaum and Ellen Hume, "Budget Negotiators May Try to Delay Gramm-Rudman Cuts if Accord Is Near," *The Wall Street Journal*, November 18, 1987, p. 3.
2. Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 1988* (Washington D.C.: U.S. Government Printing Office, 1987).
3. *Ibid.*
4. Jeffrey H. Birnbaum and Alan Murray, "Reagan's Assumptions in Budget Cutting Talks Called Dubious by Some Involved in His Decisions," *The Wall Street Journal*, October 29, 1987, p. 68.
5. *Ibid.*
6. James M. Buchanan, "Public Debt and Capital Formation," Ch. 18 in *Liberty, Market and State: Political Economy in the 1980s* (New York: New York University Press, 1986), p. 201.
7. Tax Foundation, "Social Welfare Outlays Dominate Federal Government Expenditures," *Tax Features* 31 (September 1987): pp. 1-4.

IDEAS ON LIBERTY

What Is Seen and What Is Not Seen

Have you ever heard anyone say: "Taxes are the best investment; they are a life-giving dew. See how many families they keep alive, and follow in imagination their indirect effects on industry; they are infinite, as extensive as life itself."

The advantages that government officials enjoy in drawing their salaries are *what is seen*. The benefits that result for their suppliers are also *what is seen*. They are right under your nose.

But the disadvantage that the taxpayers try to free themselves from is *what is not seen*, and the distress that results from it for the merchants who supply them is *something further that is not seen*, although it should stand out plainly enough to be seen intellectually.

When a government official spends on his own behalf one hundred sous more, this implies that a taxpayer spends on his own behalf one hundred sous the less. But the spending of the government official *is seen*, because it is done; while that of the taxpayer *is not seen*, because—alas!—he is prevented from doing it.

—FREDERIC BASTIAT

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Brady Report: Threat to Stock Market Stability

by Christopher L. Culp

The President's Task Force on Market Mechanisms, created in the wake of the October 19 stock market crash, has recommended actions designed to make the stock and derivative markets more stable. But the Commission, headed by Nicholas F. Brady, has made proposals which would actually increase the likelihood that another crash will occur.

Part of the problem with the Brady Commission's recommendations lies in its interpretation of the role that futures markets play in maintaining the financial integrity of the market system. In particular, the Commission neglects the role of the Chicago Mercantile Exchange (CME) as an instrument of risk management for the New York Stock Exchange (NYSE). The most popular of all the futures markets is CME's Standard & Poor's 500 stock index futures market. On this market, contracts are traded anticipating price changes in stocks on the NYSE.

The Brady report maintained that the behavior of the futures market was one cause of the "market break" on October 19, 1987. The report explains that almost one hour into the trading day, portfolio insurers attempting to cover their losses with gains from sales of futures contracts were driving prices down. This, in turn, increased selling pressure on the futures markets. Index arbitrage—a financial strategy whereby an investor can gain profits from price disparities between index futures and their underlying stocks—was one factor in transmitting the selling pressure to the NYSE. The Commission fell into the camp of those who feel that because the market adjusted accordingly to the S & P 500 index of the futures market—almost a self-fulfilling prophecy—the "tail was wagging the dog."

That analysis is not altogether inaccurate. However, the conclusions that the Commission drew from that premise are not ones that would decrease market volatility. Because the Brady Commission saw these markets as fundamentally linked and felt that the downfall of one led, in part, to the downfall of another, it recommended several courses of action to prevent another market dysfunction from causing yet another market break.

Perhaps its greatest error is recommending that margin requirements should be consistent between stock and futures markets. The Commission study implies that futures margins should be changed to decrease speculation in the futures market and to limit the amount of leverage that individual investors have in the futures market. Some critics feel that the overleveraging of the futures market was partially if not totally responsible for the bullish climb of the market from August 1982 to Black Monday.

The Commission is quick to bring up the possibility of cross-margining to illustrate that they are not simply trying to raise futures margins. Cross-margining implies that while some margins may increase, others will de-

Christopher L. Culp is an Associate Policy Analyst at the Competitive Enterprise Institute in Washington.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

crease, having little net effect on the margins paid by the investor. Even though the Commission may not be trying to raise margins, their conclusions are rooted in a general misunderstanding of the *function* of futures margins. Although few would argue with the Commission's assertion that the futures and stock markets are *one* market, it is a different issue altogether to say that futures margins and stock margins can be examined and regulated as one.

Futures margins serve an entirely different purpose than stock margins. While stock margins represent a percentage of actual ownership in an investment, futures margins are simply price insurance mechanisms contained in stock-derivative futures contracts—"performance bonds," if you will. It would be a serious mistake to allow the government the responsibility of making margins consistent between these two markets. The alternative to government intervention already exists in Chicago, where margins are determined largely by market movements.

Some people argue that CME margins are too low, but they are in many ways much stricter than their NYSE counterparts. If the S & P 500 fluctuates, the investors are responsible for paying the per cent of that fluctuation, often making their margins near NYSE levels. The maintenance margins at CME ensure that investors have adequate capital backing at all times. In contrast to a popular view that stock margins are always higher than futures margins, the NYSE allows a number of exemptions in margin requirements for such things as block trading and arbitrage, often bringing their margins below CME margins.

Furthermore, while the NYSE has a five-day settlement period, the CME has a twenty-four hour settlement period. The CME does not extend credit. On Black Monday, the CME collected $2.6 billion (against an average $100 million) and established its liquidity for the Tuesday open. The CME's Committee of Inquiry explains, "All margin calls were met, no clearing member defaulted, and thus no customer funds were lost due to insufficient financial integrity."[1] Furthermore, the CME had two *intra*-day margin calls that were met by investors within one hour of their issue.[2] The real doubt came from the uncertainty of whether New York investors would still have liquidity five days after the crash. That time lag created doubts that caused a number of problems at the open on Tuesday, October 20.

The Commission did not demonstrate that it understood the necessity of the futures market as a mechanism of risk management. Its recommendation for consistent margins is clearly indicative of this. The Commission apparently failed to understand the significance of "speculation." Often thought of as random gambling, speculation on the futures exchange is actually short-term investment. Speculators provide the market with buyers when prices are low and sellers when prices are high. Without speculators, long-term investment would be next to impossible. Furthermore, by buying or selling against market pressure, they allow long-term investors to "hedge" their risks, thereby strengthening the entire market and preventing order imbalances (cited by the Commission as one of the main reasons that many NYSE stocks could not open on Black Monday).

The Role of Speculators

Speculators are willing to take the risks that hedgers want to avoid, and the effect of this is the strengthening of the market. To establish a strong market, it is essential that buyers and sellers both exist. Unreasonable recommendations by the Commission regarding margins would tend to drive away much of the necessary speculation on the futures market. On October 19, speculators in the CME served a vital function. When the pressure to sell was tremendous, the local speculators were buying futures contracts. In New York, the inability of the market specialists to find buyers for stocks is cited by the task force as another major reason for the fall. Some NYSE specialists emerged as net sellers—not buyers—on Black Monday.

While NYSE's risk management mechanism failed, speculation on the CME worked. It successfully absorbed selling pressure and broke the fall of the NYSE. It is estimated that CME absorbed 27,000 contracts on Black Monday. Had those contracts been transmitted back to the NYSE, they would have represented approximately 85 million shares of stock, or 14

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

per cent of the total NYSE volume that day.[3]

The task force never fully realized the significance of speculation. Allowing Self-Regulatory Organizations (SRO's) to set margins instead of the government would help keep speculators in the market. This would put the assets of the members of the SRO at risk. The fear of market failure will lead the investors virtually to insist on adequate maintenance margins, but these margins will be flexible to change with market fluctuations. Because investors have a direct stake in the market and government does not, market-based margin requirements will support the system far better than government regulation can.

A drop in the number of speculators that higher futures margins might precipitate would undermine the principal function of the stock index futures exchanges—risk management. Markets such as the S & P 500 were created because there was a great demand for them. If the Commission's recommendations succeed in stifling the risk management process, there will still be a demand for risk management. Since a number of domestic stocks exist on foreign markets, there is nothing to stop investors from hedging their risks overseas. If the U.S. futures market is no longer available for speculation, the market demand will be exported. Needless to say, this would not have the effect of strengthening the U.S. stock market.

The Brady report also mistakenly calls for "circuit breakers" to stop another fall, should it occur. The impracticality of this idea can be seen in the Hong Kong market. Its decision to close did not "calm" the market; it intensified the panic. Hong Kong did not find that its problems had gone away one week later. The U.S. stock markets do not need circuit breakers to shut them down. They need "surge protectors" so that American markets can accommodate the intense stress of a precipitous fall without shutting down completely and intensifying the loss of investor confidence.

A Grave Error

A circuit breaker that the Commission calls for is the imposition of price limits on the markets. This would be a grave error on the Chicago Mercantile Exchange. The very nature of the CME is to allow the investor to set prices. Charles Seeger of the CME states that the futures market is ". . . a forum for price discovery."[4] Futures markets function as a producer of information. Prices are the result—not the cause—of markets. Imposing price limits on the futures market would treat the symptom, not the disease. Imposing price limits on the futures markets would be much like a doctor who tells a patient that he has a temperature, and then tries to cure it by saying, "Hopefully, it will be gone tomorrow."

Furthermore, price limits would simply delay the movement of the market. It is naive to think that price limits would do anything more than forestall the inevitable. Without price limits, the market will proceed to its "destination" with as much speed as possible. Since a purpose of futures markets is to set prices, it is to the advantage of the investor to know the future price as soon as possible. Allowing the market to move with utmost speed to its destination will cause a "panic of the moment," as happened on Black Monday. But it will alleviate the much greater problem of prolonged panic, as happened in Hong Kong—or on a larger scale, the Great Depression. Once prices have been established, investors can deal with trades at face value, rather than trying to second guess the market's movement.

Several people have expressed the view that the October market break was nothing more than market equalization. The market was running above its capacity, and the break was a redefinition of capacity in the marketplace. The general attitude in London after the crash was surprise to see Americans acting as shocked as they had. They felt that markets are supposed to rise and fall—what was so different about this time?

There is an unquestionable need to create a system of surge protectors, but the recommendations of the Brady Commission do not provide the proper solutions. The solutions lie in the private sector—not with the government. A major problem is public confidence in the market. Fear by investors that there is no liquidity in the market is largely due to the inadequate technology present in the existing information-clearing mechanism, particularly with respect to opening prices. Modernizing the ex-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

isting system would remove many of the problems associated with investor confidence. The private sector can also more effectively assure adequate capital backing to the market makers and specialists than government regulations can. Indeed, the NYSE might do well to reconsider the entire specialist system.

The U.S. also would profit to look at London as an example. Studies there urge less regulation, more arbitrage, and more investor involvement. U.S. investment firms are cowering away from arbitrage and program trading for little apparent reason. It is this reaction by U.S. investment firms that perpetuates—not alleviates—fear of market safety. And this fear, like a disease, could soon be contracted by Congress.

With any luck, Congress will give short shrift to the Brady Commission recommendations as it continues to hold hearings throughout the year. Creating higher futures margins and circuit breakers will have the effect of increasing—not decreasing—the likelihood that Black Monday will happen all over again. □

1. Merton H. Miller, et al., *Preliminary Report of the Committee of Inquiry Appointed by the Chicago Mercantile Exchange to Examine the Events Surrounding October 19, 1987,* December 22, 1987, p. 48.
2. *Ibid.*, p. 46.
3. *Ibid.*, p. 30.
4. Charles Seeger, Vice President of Governmental Affairs, Chicago Mercantile Exchange, address before The Jefferson Group, February 5, 1988.

Wage Earners and Employers

by Ludwig von Mises

Q. "Are the interests of the American wage earners in conflict with those of their employers, or are the two in agreement?"

A. To answer that question we must first look at a little history. In the pre-capitalistic ages, a nation's social order and economic system were based upon the military superiority of an elite. The victorious conqueror appropriated to himself all the country's utilizable land, retained a part for himself, and distributed the rest among his retinue. Some got more, others less, and the great majority nothing. In the England of the early Plantagenets, a Saxon was right when he thought: "I am poor because there are Normans to whom more was given than is needed for the support of their families." In those days the affluence of the rich was the cause of the poverty of the poor.

Conditions in the capitalistic society are different. In the market economy the only way left to the more gifted individuals to take advantage of their superior abilities is to serve the masses of their fellowmen. Profits go to those who succeed in filling the most urgent of the not-yet-satisfied wants of the consumers in the best possible and cheapest way.

The profits saved, accumulated, and plowed back into the plant benefit the common man twice. First, in his capacity as a wage earner, by raising the marginal productivity of labor

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Editors' note: *Ludwig von Mises (1881-1973) was a pre-eminent exponent of free market economics during his long and distinguished academic career. He was associated with The Foundation for Economic Education as a consultant and part-time staff member from shortly after FEE was founded in 1946 until his death in 1973. We wish to thank his widow, Margit von Mises, for permission to publish this transcript of Professor Mises' response to the question: "Are the interests of the American wage earners in conflict with those of their employers, or are the two in agreement?" These remarks were broadcast during the intermission of the U.S. Steel Concert Hour, May 17, 1962.*

and thereby real wage rates for all those eager to find jobs. Then later again, in his capacity as a consumer when the products manufactured with the aid of the additional capital flow into the market and become available at the lowest possible prices.

The characteristic principle of capitalism is that it is mass production to supply the masses. Big business serves the many. Those outfits that are producing for the special tastes of the rich never outgrow medium or even small size. Under such conditions those anxious to get jobs and to earn wages and salaries have a vital interest in the prosperity of the business enterprises. For only the prosperous firm or corporation has the opportunity to invest, that is, to expand and to improve its activities by the employment of ever better and more efficient tools and machines.

The better equipped the plant is, the more the individual worker can produce within a unit of time, and the higher is what the economists call the marginal productivity of his labor and, thereby, the real wages he gets. The fundamental difference between the conditions of an economically underdeveloped country like India and those of the United States is that in India the per head quota of capital invested, and thereby the marginal productivity of labor, and consequently wage rates, are much lower than in this country. The capital of the capitalists benefits not only those who own it, but also those who work in the plants and those who buy and consume the goods produced.

And then there is one very important fact to keep in mind. When, as we did in the preceding observations, one distinguishes between the concerns of the capitalists and those of the people employed in the plants owned by the capitalists, one must not forget that this is a simplification that does not correctly describe the real state of present-day American affairs. For the typical American wage earner is not penniless. He is a saver and investor. He owns savings accounts, United States Savings Bonds and other bonds, and first of all insurance policies. But he is also a stockholder. At the end of the last year [1961] the accumulated personal savings reached $338 billion. A considerable part of this sum is lent to business by the banks, savings banks, and insurance companies. Thus the average American household owns well over $6000 that are invested in American business.

The typical family's stake in the flourishing of the nation's business enterprises consists not only in the fact that these firms and corporations are employing the head of the family. There is a second fact that counts for them, to wit, that the principal and interest of their savings are safe only as far as American free enterprise is in good shape and prospering. It is a myth that there prevails a conflict between the interests of the corporations and firms and those of the people employed by them. In fact, good profits and high real wages go hand in hand. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Democracy's Road to Tyranny

by Erik von Kuehnelt-Leddihn

Plato, in his *Republic,* tells us that tyranny arises, as a rule, from democracy. Historically, this process has occurred in three quite different ways. Before describing these several patterns of social change, let us state precisely what we mean by "democracy."

Pondering the question of "Who should rule," the democrat gives his answer: "the majority of politically equal citizens, either in person or through their representatives." In other words, equality and majority rule are the two fundamental principles of democracy. A democracy may be either liberal or illiberal.

Genuine liberalism is the answer to an entirely different question: *How* should government be exercised? The answer it provides is: regardless of *who* rules, government must be carried out in such a way that each person enjoys the greatest amount of freedom, compatible with the common good. This means that an absolute monarchy could be liberal (but hardly democratic) and a democracy could be totalitarian, illiberal, and tyrannical, with a majority brutally persecuting minorities. (We are, of course, using the term "liberal" in the globally accepted version and not in the American sense, which since the New Deal has been totally perverted.)

How could a democracy, even an initially liberal one, develop into a totalitarian tyranny? As we said in the beginning, there are three avenues of approach, and in each case the evolution would be of an "organic" nature. The tyranny would evolve from the very character of even a liberal democracy because there is, from the beginning on, a worm in the apple: freedom and equality do not mix, they practically exclude each other. Equality doesn't exist in nature and therefore can be established only by force. He who wants geographic equality has to dynamite mountains and fill up the valleys. To get a hedge of even height one has to apply pruning shears. To achieve equal scholastic levels in a school one would have to pressure certain students into extra hard work while holding back others.

The first road to totalitarian tyranny (though by no means the most frequently used) is the overthrow by force of a liberal democracy through a revolutionary movement, as a rule a party advocating tyranny but unable to win the necessary support in free elections. The stage for such violence is set if the parties represent philosophies so different as to make dialogue and compromise impossible. Clausewitz said that wars are the continuation of diplomacy by other means, and in ideologically divided nations revolutions are truly the continuation of parliamentarism with other means. The result is the absolute rule of one "party" which, having finally achieved complete control, might still call itself a party, referring to its parliamentary past, when it still was merely a *part* of the diet.

A typical case is the Red October of 1917. The Bolshevik wing of the Russian Social Democratic Workers' Party could not win the elections in Alexander Kerenski's democratic Russian Republic and therefore staged a coup with the help of a defeated, marauding army and navy, and in this way established a firm socialistic tyranny. Many liberal democracies are enfeebled by party strife to such an extent that revolutionary organizations can easily

Dr. Kuehnelt-Leddihn is a European scholar, linguist, world traveler, and lecturer.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

seize power, and sometimes the citizenry, for a time, seems happy that chaos has come to an end. In Italy the *Marcia su Roma* of the Fascists made them the rulers of the country. Mussolini, a socialist of old, had learned the technique of political conquest from his International Socialist friends and, not surprisingly, Fascist Italy was the second European power, after Laborite Britain (and long before the United States) to recognize the Soviet regime.

The second avenue toward totalitarian tyranny is "free elections." It can happen that a totalitarian party with great popularity gains such momentum and so many votes that it becomes *legally* and democratically a country's master. This happened in Germany in 1932 when no less than 60 per cent of the electorate voted for totalitarian despotism: for every two National Socialists there was one international socialist in the form of a Marxist Communist, and another one in the form of a somewhat less Marxist Social Democrat. Under these circumstances liberal democracy was doomed, since it had no longer a majority in the Reichstag. This development could have been halted only by a military dictatorship (as envisaged by General von Schleicher who was later murdered by the Nazis) or by a restoration of the Hohenzollerns (as planned by Brüning). Yet, within the democratic and constitutional framework, the National Socialists were bound to win.

How did the "Nazis" manage to win in this way? The answer is simple: being a mass movement striving for a parliamentary majority, they singled out unpopular minorities (the smaller, the better) and then rallied popular support against them. The National Socialist Workers' Party was "a popular movement based on exact science" (Hitler's words), militating against the hated few: the Jews, the nobility, the rich, the clergy, the modern artists, the "intellectuals," categories frequently overlapping, and finally against the mentally handicapped and the Gypsies. National Socialism was the "legal revolt" of the common man against the uncommon, of the "people" (*Volk*) against privileged and therefore envied and hated groups. Remember that Lenin, Mussolini, and Hitler called their rule "democratic"—*demokratiya po novomu, democrazia organizzata, deutsche Demokratie*—but they never dared to call it "liberal" in the worldwide (non-American) sense.

Carl Schmitt, in his 93rd year, analyzed this evolution in a famous essay entitled "The Legal World Revolution": this sort of revolution—the German Revolution of 1933—simply comes about through the ballot and can happen in any country where a party pledged to totalitarian rule gains a relative or absolute majority and thus takes over the government "democratically." Plato gave an account of such a procedure which fits, with the fidelity of a Xerox copy, the constitutional transition in Germany: there is the "popular leader" who takes to heart the interest of the "simple people," of the "ordinary, decent fellow" against the crafty rich. He is widely acclaimed by the many and builds up a body guard only to protect himself and, of course, the interests of the "people."

In the Name of the People

Think of Hitler's SA and SS and also of the tendency to apply wherever possible the prefix *Volk* (people): *Volkswagen* (people's car), *Volksempfänger* (people's radio set), *das gesunde Volksempfinden* (the healthy sentiments of the people), *Volksgericht* (people's law court). Needless to say that this verbal policy continues in the "German Democratic Republic" where we see a "People's Police," a "People's Army," while Moscow's satellite states are called "People's Democracies."

All this implies that in earlier times only the elites had a chance to govern and that now, at long last, the common man is the master of his destiny able to enjoy the good things in life! It matters little that the realities are quite different. A very high-ranking Soviet official recently said to a European prince: "Your ancestors exploited the people, claiming that they ruled by the Grace of God, but we are doing much better, we exploit the people in the name of the people."

Then there is the third way in which a democracy changes into a totalitarian tyranny. The first political analyst who foresaw this hitherto-never-experienced kind of evolution was Alexis de Tocqueville. He drew an exact and frightening picture of our Provider State

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

(wrongly called Welfare State) in the second volume of his *Democracy in America,* published in 1835; he spoke at length about a form of tyranny which he could only describe, but not name, because it had no historic precedent. Admittedly, it took several generations until Tocqueville's vision became a reality.

He envisaged a democratic government in which nearly all human affairs would be regulated by a mild, "compassionate" but determined government under which the citizens would practice their pursuit of happiness as "timid animals," losing all initiative and freedom. The Roman Emperors, he said, could direct their wrath against individuals, but control of all forms of life was out of the question under their rule. We have to add that in Tocqueville's time the technology for such a surveillance and regulation was insufficiently developed. The computer had not been invented and thus his warnings found little echo in the past century.

Tocqueville, a *genuine* liberal and legitimist, had gone to America not only because he was concerned with trends in the United States, but also on account of the electoral victory of Andrew Jackson, the first Democrat in the White House and the man who introduced the highly democratic Spoils System, a genuine invitation to corruption. The Founding Fathers, as Charles Beard has pointed out, hated democracy more than Original Sin. But now a French ideology, only too familiar to Tocqueville, had started to conquer America.

This portentous development lured the French aristocrat to the New World where he wanted to observe the global advance of "democratism," in his opinion and to his dismay bound to penetrate everywhere and to end in either anarchy or the New Tyranny—which he referred to as "democratic despotism." The road to anarchy is more apt to be taken by South Europeans and South Americans (and it usually terminates in military dictatorships in order to prevent total dissolution), whereas the northern nations, while keeping all democratic appearances, tend to founder in totalitarian welfare bureaucracy. The lack of a common political philosophy is more conducive to the development of outright revolutions in the South where civil wars tend to be "the continuation of parliamentarism with other (and more violent) means," while the North is rather given to evolutionary processes, to a creeping increase of slavery and a decrease of personal freedom and initiative. This process can be much more paralyzing than a mere personal dictatorship, military or otherwise, without an ideological and totalitarian character. The Franco and Salazar regimes and certain Latin American authoritarian governments, all mellowing with the years, are good examples.

Slouching Toward Servitude

Tocqueville did not tell us just how the gradual change toward totalitarian servitude can come about. But 150 years ago he could not exactly foresee that the parliamentary scene would produce two main types of parties: the Santa Claus parties, predominantly on the Left, and the Tighten-Your-Belt parties, more or less on the Right. The Santa Claus parties, with presents for the many, normally take from some people to give to others: they operate with largesses, to use the term of John Adams. Socialism, whether national or international, will act in the name of "distributive justice," as well as "social justice" and "progress," and thus gain popularity. You don't, after all, shoot Santa Claus. As a result, these parties *normally* win elections, and politicians who use their slogans are effective vote-getters.

The Tighten-Your-Belt parties, if they unexpectedly gain power, generally act more wisely, but they rarely have the courage to undo the policies of the Santa parties. The voting masses, who frequently favor the Santa parties, would retract their support if the Tighten-Your-Belt parties were to act radically and consistently. Profligates are usually more popular than misers. In fact, the Santa Claus parties are rarely utterly *defeated,* but they sometimes defeat themselves by featuring hopeless candidates or causing political turmoil or economic disaster.

A politicized Saint Nicholas is a grim taskmaster. Gifts cannot be distributed without bureaucratic regulation, registration, and regimentation of the entire country. Countless strings are attached to the gifts received from "above." The State interferes in all domains of human existence—education, health, transpor-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A politicized Santa Claus is a grim taskmaster.

tation, communication, entertainment, food, commerce, industry, farming, building, employment, inheritance, social life, birth, and death.

There are two aspects to this large-scale interference: statism *and* egalitarianism, yet they are intrinsically connected since to regiment society perfectly, you must reduce people to an identical level. Thus, a "classless society" becomes the real aim, and every kind of discrimination must come to an end. But, discrimination is intrinsic to a free life, because freedom of will and choice is a characteristic of man and his personality. If I marry Bess instead of Jean, I obviously discriminate against Jean; if I employ Dr. Nishiyama as a teacher of Japanese instead of Dr. O'Hanrahan, I discriminate against the latter, and so forth. (One should not be surprised if an opera house that rejects a 4-foot tall Bambuti singer for the role of Siegfried in Wagner's "Ring" is accused of racism!)

There is, in fact, only either just or unjust discrimination. Yet, egalitarian democracy remains adamant in its totalitarian policy. The popular pastime of modern democracies of punishing the diligent and thrifty, while rewarding the lazy, improvident, and unthrifty, is cultivated via the State, fulfilling a demo-egalitarian program based on a demo-totalitarian ideology.

Democratic tyranny, evolving on the sly as a slow and subtle corruption leading to total State control, is thus the third and by no means rarest road to the most modern form of slavery. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Mom's Monopoly, Part II

by Susan J. Osburn

One day, Sam came home from school in an anxious state of mind:

Sam: Mom, I'm in trouble now.

Mom: Why?

Sam: I did so well on my economics essay, with the help you gave me, that now Miss Snick wants me to present a project on the market system.

Mom: Can you do it as a practical project rather than as an essay?

Sam: Yeah, I guess so.

Mom: You can do it along with your fund-raising project for the band. Aren't you going to sell something?

Sam: Yeah! We're going to sell Booster Buttons, you know, badges that say "Hale High" and have the Hale Hyena printed on them, to the kids at school.

Mom: Okay, that can be your example of the market process. The band will be like a firm, offering a supply of a product to the market for purchase and consumption by your pool of potential buyers, the students. How much are you going to charge per badge?

Sam: About 50 cents, I guess.

Mom: Why that price?

Sam: Well, most kids can afford it, and we'll still make money.

Mom: So your decision on the price is based first of all on what you think your buyers will pay. How much does it cost you for each badge?

Susan Osburn is a medical technologist, classical singer, and mother of a fourteen-year-old son and three-year-old daughter. She is currently taking graduate courses at George Mason University, Fairfax, Virginia.

Sam: We checked with Wholesale Badges and it was 20 cents.

Mom: What would you have done if the wholesale company had wanted to charge you 75 cents a button?

Sam: We'd have looked for some other thing to sell. You can't sell stuff for over a dollar at school. The kids are too broke.

Mom: Right. Price was your first consideration in deciding how to enter this market. You worked back from your price to determine what costs you could allow. Doing that shows you already had some information about your market. Knowledge and the use of it are important for both the buyer and the seller. The kids at school have to have some idea whether 50 cents is a reasonable price for a Booster Button, or a rip-off; and you as a seller have to know how much your buyers are likely to spend for your type of product. How many kids are in the school?

Sam: Two thousand.

Mom: What makes you think they'll want Booster Buttons? How many will want them? How many will you get from the wholesaler?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Sam: We wish we knew! We have to guess.

Mom: Yes, you do. Any firm has to guess what demand for its products will be, because you have to produce them before they can be bought. Then you correct yourself after you see what happens, and make a more educated guess each time. Suppose you get 1,000 buttons, but only sell 750?

Sam: We'd have a sale. We'd knock the rest down to 30 cents to get rid of them.

Mom: Suppose you did that and sold them all. How much would you make?

Sam: Uh—(pencil and paper)—750 times 50 cents—and 250 times 30 cents—$450! Wow!

Mom: Don't forget those buttons cost you something.

Sam: Oh, yeah. 1,000 times 20 cents—$200. We only make $250. Still okay.

Mom: The reason you had to have a sale is that your supply was too great for the demand at that price. You had a surplus. Even though it may not be so great for the band if that happens, it will be OK for your report, as long as you understand what's happening. The quantity demanded at 50 cents was 750; at 30 cents it was 1,000—or at least you could express it that way and avoid confusion caused by the changes in the market brought about by your previous sale of the buttons at 50 cents.

Sam: What I hope will happen is that our Booster Buttons get to be the fad at school, and everyone will buy one!

Mom: That could happen. Changes in taste are some of the factors that affect demand. Another factor would be income changes; for instance, if all the parents took away their kids' allowances, or all the parents gave their kids raises. More money in your fellow students' pockets would increase the demand, not just the quantity you could sell. If we lived in Beverly Hills you could be selling Booster Buttons for $2 apiece.

Sam: Not with the Hale Hyena on them, we couldn't.

Mom: That goes without saying. Now, suppose the buttons got to be a fad and you sold the whole thousand in two days and kids were begging you for more?

Sam: We'd go to Wholesale Badges and order a lot more!

Mom: Two thousand more?

Sam: No, that might be too many. We'd have to think about it.

Mom: So you kids would be showing the characteristics of an entrepreneur: alertness to opportunities, and judgment in responding to them. You notice that you have a chance to sell more badges, so you arrange to get more, but not so many that you can't sell them and end up losing money. Here's another thing to think about: What if the choir started selling booster buttons also? And the cheerleaders were selling shakeroos at the same time?

Sam: Hmm. We'd be competing with the choir. We might have to lower our price. But shakeroos are different. Kids might like it best if they could have a button *and* a shakeroo. Especially girls.

Mom: Right. Two different Booster Buttons on the market are substitute or rival products. Both you and the choir might have to drop prices. The shakeroos might be complementary products to the Booster Buttons. As more shakeroos are sold, Booster Button sales might go up because kids want a full set of rah-rah products.

Here's something else to think about. What if Mr. Hack, the principal, was worried that maybe some kids couldn't afford 50 cents, so he ordered you to sell your buttons for 25 cents?

Sam: Oh, brother. If we could only make 5 cents a button, it wouldn't be worth it. We might as well just ask for donations and forget about selling Booster Buttons. Or maybe just let a couple hundred be sold through the bookstore.

Mom: So by restricting the price you could charge, Mr. Hack would actually reduce the availability of Booster Buttons to a very low number or maybe to zero. Then not only the poor kids would lack Booster Buttons, the whole school might miss out on them. That tendency for supply to be reduced is an effect of price controls in bigger markets, too. In fact, it's generally true that firms increase the supply of products for which they can get a better price, and decrease supply if the price is less. Price controls are just a special case.

Sam: That's just common sense.

Mom: Yes, a lot of these ideas in economics

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

are based on the way people actually do things in their best interests. If you try to imagine something happening in the market based on crazy behavior, like people buying Booster Buttons for $100 apiece or the band's only offering five of them for sale, you have a lousy argument.

Sam: We just have to wait and see what happens when we start selling, don't we? We can't predict it exactly or control what happens.

Mom: That's right. The market consists of interaction between buyers and sellers, so things sort themselves out naturally. As prices go up, buyers buy less; if they are lower, larger quantities are demanded. On the other hand, sellers like to sell at a high price, so they supply more at higher prices, less at lower prices. They can only do that to the extent that the buyers will buy, though! So somewhere in the middle is where prices actually end up as a result of that interaction.

As long as nobody like Mr. Hack or the government interferes, the price you end up with is fair and the supply of goods pretty much matches the customers' wants. Economists make graphs about this called supply and demand curves. You can make one for Miss Snick, if you want to, but remember that graphs are only drawings. A supply and demand graph describes market interactions about as well as a stick figure describes a person, yet the graph can be useful for explaining markets to a novice.

Sam: You mean the way a stick figure describes humans to a space alien?

Mom: Yes. Are you all set now?

Sam: Yeah, Mom. Are you going to put up the $200 to buy the buttons from Wholesale Badges?

Mom: *WHAT??* □

Next month, in the third and final installment of "Mom's Monopoly," Sam and his mother discuss competition and antitrust.

Caveat Emptor

by Walter Block

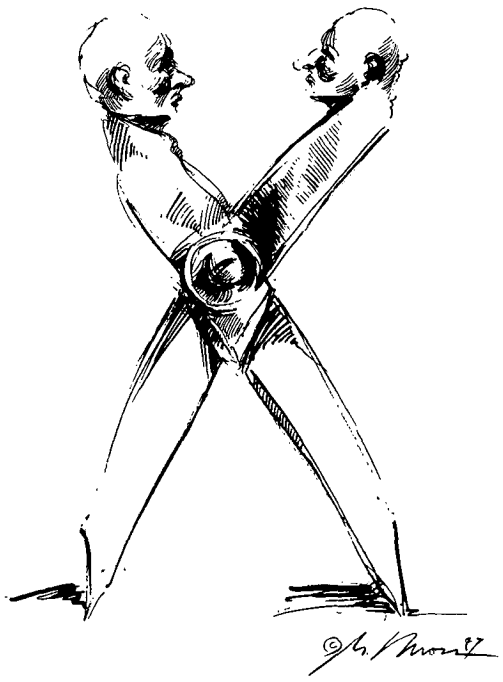
In Peterborough, Ontario, 21-year-old Christopher Green died after being crushed by an 800-pound Coca-Cola dispenser. The young man was trying to steal a Coke by tipping the machine toward him, and had asked his friends to push from behind.

However, in a travesty of justice as bizarre as the actual event, instead of Coca-Cola's suing Mr. Green's estate for damage to its property, his family has sued Coca-Cola for negligence. In it they complain that the soft drink manufacturer "ought to have known that it was a common and reasonably foreseeable practice among young people to obtain free drinks from the defendant's dispensing machines by tilting the machines forward."

Nor is this merely a nuisance case. James Drum, technical vice-president for Coca-Cola Ltd., thinks enough of it to have replied that the industry is studying ways to bolt down the dispensing machines. "We're working on it as diligently as we can," he said.

Dr. Block is Senior Economist at The Fraser Institute, Vancouver, Canada.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Unfortunately, such perversion of the law is by no means confined to central Canada. The British Columbia Court of Appeal has recently upheld a lower court ruling against a helicopter skiing company for delivering two men to the slopes of a lodge in the Purcell Mountains. Soon after, the two skiers died in an avalanche.

The heli-skiing company was found guilty of negligence, even though the two men were expert skiers and had signed detailed waivers relieving the company of all responsibility.

What is going on here? Has the notion of personal responsibility been banished entirely from the legal scene? What happened to the natural law doctrine of "caveat emptor," under which goods and services were sold on an "as is" basis, and the vendor took no responsibility for accidents, let alone theft on the part of the buyer?

If things continue along the present legal path, there will scarcely remain anyone in business to produce a football helmet, hockey skate, soccer ball, teeter-totter, motorcycle, swing set, sailboat, lawn mower, meat grinder, or any other equipment which might conceivably be involved in a mishap.

It is difficult to explain this movement away from "caveat emptor." But one possibility might be the influence of a new movement in law and economics which is concerned with measurement and information. In this perspective, it is of the utmost importance to reduce information costs of all kinds, but particularly those associated with risk.

Great emphasis is placed on the fact that Coca-Cola may be presumed to know more about the accident possibilities of its dispensers than would the general public, and that the helicopter company has greater information about possible avalanches than would even tourists who are expert skiers. In like manner, the manufacturers of sporting equipment and consumer machinery are assumed to be far more knowledgeable about their products than are the ultimate users.

If this is the case then, according to economists who should know better, information costs may be reduced by holding the producer responsible for any mishaps, not the consumer.

The problem with this view is that costs are subjective. Costs are the alternatives forgone through any act of choice. As such, only the individual economic actor is in a position to know what opportunities are given up when an option is selected.

Consider the helicopter case. It is wrong to assume that despite an explicit agreement between the two parties absolving the helicopter company of responsibility, that the skier is ignorant of the true costs of the risk. All we have to go on is a voluntary contract between the company and the vacationer. From this we can deduce that in the minds of both parties the agreement was worthwhile. As it turned out, of course, tragedy struck. But it does not follow that, in the future, information costs can be reduced, and the public good promoted, by setting aside contracts which incorporate the knowledge of both consenting parties.

What is needed in law circles is a healthy dose of common sense, with a pinch of respect for commercial contracts between consenting adults. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Vanishing Voluntarism

by James L. Payne

The Planned Parenthood organization recently ran an unusual billboard advertisement in the cars of the Washington, D.C., Metro that says a lot about what is happening to voluntary groups in this era of big government. The ad shows an Asian woman and her child, with this caption: "It took a generation to give her a choice. And one Administration to take it away."

The organization was protesting about a funding problem. The Planned Parenthood Federation of America has been receiving about $20 million yearly from the federal government to carry out birth control programs abroad. Recent regulations of the Reagan Administration (concerning abortion funding) led to a cutoff of money for foreign programs. Hence the Metro ad. But unlike the usual appeals of private organizations, it doesn't ask the public for a dime.

"White House extremists have targeted Planned Parenthood's international program for destruction," it continues. "Congress can stop them. Call your representatives now. Tell them: if the extremists win, the whole world loses. Help us fight back."

Planned Parenthood may, in fact, be a fine organization doing an important job. That isn't the issue. The question is whether, as its own Annual Report claims, it is a "voluntary" agency. Inspection of its finances shows that it gets nearly 40 per cent of its funding from federal, state, and local governments. Its international program, as just noted, is dependent on the whim of government regulation. Even its fund-raising orientation has shifted. When it comes time to "fight back," it does not seek voluntary donations, but organizes a political campaign to force taxpayers to fund its programs.

How does this loss of independence come about? "We were approached by the government," one embarrassed PPFA staffer told me. Looking around at other organizations, it seems this is the typical pattern. In their eagerness to do good, politicians and administrators seek out healthy, appealing voluntary activities and turn them into government "programs."

Take, for example, the ACTION agency. This governmental unit administers "The Domestic Volunteer Service Act of 1973." In what sense, one wonders, are we talking about "voluntary" action? A government agency, funded by tax money, is administering an Act of Congress, a law backed by the enforcement powers of the United States Government.

Well, you say, at least the workers in the program are volunteers in the sense that they don't get paid. Guess again. The "volunteers" in most of the programs are paid a wage, politely called a "stipend," which typically runs to $2.20 per hour (tax free), along with other benefits.

Just how far we have strayed from the ideals of voluntarism was sharply demonstrated a few years ago when Senator Jesse Helms' Agricultural Subcommittee on Nutrition held hearings on "Private Sector Initiatives to Feed

James L. Payne is a political scientist and visiting scholar at the Social Philosophy and Policy Center at Bowling Green State University. He is writing a book about Congress and the budget entitled The Culture of Spending, *to be published next year by the Cato Institute.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

America's Poor." The Senator called the hearing "to gather information on efforts being made by the private sector . . . in addressing the food needs of the poor." But it turned out that the overwhelming majority of the witnesses urged continuation and expansion of the federal government's food programs. One even called on Congress to "legislate an end to hunger"!

Not Private at All

As they described their own "private sector initiatives," it became clear that many were not private at all. Like the Planned Parenthood programs, they were extensions of government. For example, one minister from North Carolina explained the many governmental ties in his church's programs: they depended on the county welfare office to certify the needy, they equipped their kitchen with a grant from the North Carolina Division of Aging, they obtained a $580,000 loan from the Farmers Home Administration and another, for $2.5 million, from the Department of Housing and Urban Development, and so on.

Rather than being apologetic about taxpayer funding of his organization, the minister took credit for expanding governmental dependency. Near his city, he said, is "a rural, mountainous area where many people live below the poverty level. These people are poor, but they are also proud. Many of them would rather die of malnutrition than to accept the Government dole. Thus assistance must come to them in an acceptable form, one which honors their dignity and their personhood. The church is an ideal conduit for assistance. . . ."

Thus we see the "private sector" reducing itself to a front for government funding.

Some would say that such "public-private partnerships" are healthy, a creative adaptation to the welfare needs of the 1980s. But this view overlooks the distinctive character of truly private action. In private, voluntary groups, no one uses force to make anyone do anything. People join up and give money because they believe in the aims of the organization, because they have been persuaded to help. For idealists seeking to reduce the role of force in human affairs, voluntary organizations are the key to a brighter future with less coercion.

Government, by definition, involves the deployment of force. Government funds are collected not voluntarily but through coercion or the threat of coercion. It may be necessary to do things this way, at least under certain circumstances, but coercion can't be considered a high-minded approach, nor the wave of a desirable future. Government is a tainted realm of things "belonging to Caesar." Impoverished North Carolina hill folk understand this, and that is why they are chary of government welfare.

The leaders of private organizations need to face this awkward truth. At first glance, government can look like any other donor when it is offering funds. But one has to ask how it gets the money, and whether a "voluntary" organization ought to be a part of that system. □

IDEAS ON LIBERTY

Virtues and Values

Liberty, individualism, voluntarism, personal independence, and individual responsibility can only be made to work by a people who have developed virtues which will buttress these ideas and practices. For people in general to concur in practices by which each man receives the fruits of his labor, they need to have a set of values in keeping with these practices. These values must exist in intricate interrelation, not in careless disarray.

CLARENCE B. CARSON

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The World Bank vs. the World's Poor

by James Bovard

The World Bank is helping Third World governments cripple their economies, maul their environments, and oppress their people. From Benin to Zaire, the bank has spurred the nationalization of Third World economies and increased political and bureaucratic control over the lives of many of the world's poorest people.

The bank—officially known as the International Bank for Reconstruction and Development—was organized by the United Nations in the closing years of World War II. Its mission, according to its Articles of Agreement, was to facilitate "the investment of capital for productive purposes . . . to promote private foreign investment by means of guarantees . . . and when private capital [was] not available on reasonable terms, to supplement private investment. . . ."

Until the late 1960s, the bank was a conservative institution that primarily funded infrastructure and other basics in less-developed countries. Then, in 1968, Robert McNamara became bank president, and dedicated the bank to continually rising loan levels. Between 1968 and 1981, when McNamara resigned, loan levels increased from $883 million to $12 billion, and have continued soaring since.

Bank officials are now leading a rhetorical crusade in favor of the private sector. But, more than any other international institution, the bank is responsible for the rush to socialism in the Third World—the rise of political power over the private sector—and the economic collapse of Africa.

The bank is seeking a $10 billion commitment from the U.S. government to allow it to greatly expand its lending. Now is the time to stop U.S. support—and to give struggling Third World economies a better chance for survival.

The Assault on Human Rights

The bank has a long record of supporting human rights violations. In the early 1970s, for example, the government of Tanzania, with bank aid and advice, implemented a "villagization" program. The Tanzanian army drove peasants off their land, burnt their huts, loaded the people onto trucks, and took them where the government thought they should live—where they were ordered to build new homes "in neat rows staked out for them by government officials." (*Washington Post*, May 1, 1976) The Tanzanian government wanted to curb the people's individualistic and capitalistic tendencies and make them easier to control.

In many cases, the new government villages were a great distance from the farmers' fields, so the farmers simply quit tilling the land. This, in no small way, has contributed to Tanzania's recurrent hunger problem.

In August 1978, the bank loaned $60 million to the government of Vietnam—even after widely circulated reports of massive concentration camps and brutal repression. The bank in-

James Bovard has written on foreign aid for The New York Times *and* The Wall Street Journal. *This article is based on a study he prepared for the Cato Institute.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

directly paid for the abolition of private farms and the creation of huge state cooperatives. Many farmers who resisted the government's "reorganization" were sent out in leaky boats. Thousands drowned.

The bank has loaned the government of Indonesia over $600 million to remove—sometimes forcibly—several million people from the densely populated island of Java and resettle them on comparatively barren islands. Despite widespread reports of violence, the bank continues lauding the project as "the largest voluntary migration" in recent years.

The Indonesian Minister of Transmigration has proclaimed that "by way of transmigration, we will try to realize what has been pledged, to integrate all the ethnic groups into one nation —the Indonesia nation. . . . The different ethnic groups will in the long run disappear because of integration and there will be one kind of man." (*Washington Post,* June 24, 1986) As Australian critic Kenneth Davidson notes, transmigration is "the Javanese version of Nazi Germany's lebensraum." (*Melbourne Age,* June 1, 1986)

The World Bank is providing massive aid to the Ethiopian Marxist regime of Mengistu Haile Mariam. In the midst of the 1984-85 famine, the government launched a "resettlement" program to forcibly move hundreds of thousands of Ethiopians from the northern parts of the country to the south. According to Doctors Without Borders, a French medical assistance group, the resettlement program may have killed more people than the famine itself. (*Washington Post,* December 3, 1985)

Mengistu is also committed to a villagization program whereby the government forces people to abandon their private land and live in government-controlled villages, complete with guard towers. Three million Ethiopians already have been moved this way, and the government claims that eventually it will resettle 33 million people in government villages—three quarters of Ethiopia's population.

The Wall Street Journal recently reported (May 27, 1987): "Ethiopian soldiers seized their land, destroyed their mosques, burned copies of the Koran and tried to force them to live in villages and give their produce to a collective, in return for standard food rations." The villagization scheme is closely tied to the government's plan to nationalize all agriculture.

Throughout this period, the World Bank has provided massive aid to the Mengistu government. Bank commitments to Ethiopia in 1985 equalled roughly 16 per cent of the government's $1 billion budget. The bank has provided millions for the Ethiopian Ministry of Agriculture, despite its involvement in the villagization scheme. One disgruntled bank employee, who wished to remain anonymous, described the bank's Ethiopian policy as "genocide with a human face." (personal interview, August 6, 1987)

A Record of Failure

As the bank's 1987 annual review noted, 75 per cent of its African agricultural projects have failed, bank projects in Latin American and Africa routinely collapse because the governments don't repair the bank-financed roads and infrastructure, and World Bank officials have suffered from "an unseemly pressure to lend" to Third World governments. (*Twelfth Annual Review of Project Performance Results,* World Bank, 1987)

World Bank money has probably had its biggest impact in Africa. Between 1973 and 1980, the bank plowed $2.4 billion into African agriculture. For almost 15 years, the bank has concentrated on boosting food production; in the late 1970s and early 1980s, 92 per cent of bank projects were designed to increase food production. (*Tenth Annual Review of Project Performance Results,* World Bank, 1985) Yet, per capita food production has fallen almost 20 per cent since 1960.

A 1981 Bank analysis of Africa concluded that "Much of the investment in agriculture, especially the domestic component, has gone into state farms, big irrigation schemes and similar capital-intensive activities. These have turned out to be largely a waste of money; their impact on output has been negligible in most cases." (*Insight,* February 9, 1987)

World Bank aid and advice helped African governments launch a flood of new public enterprises. But, as a 1986 bank report concluded, these enterprises "present a depressing

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the noncommercial objectives so frequently used to excuse their poor economic performance." Moreover, "the overall performance of public enterprises is so poor that even those African governments most philosophically committed to socialist principles are now openly voicing concern." (John R. Nellis, "Public Enterprises in Sub-Saharan Africa," World Bank, 1986)

Bank support of African state-owned enterprises undercuts the private sector in other ways. A 1987 bank study notes: "Another prevalent weakness in African trade regimes is the granting of import duty exempts to government enterprises and foreign aid financed projects. This practice subjects private enterprises to unfair competition and retards the development of domestic industries capable of making the same products, especially when such exemptions coincide with currency overvaluations and heavy domestic tax burdens on local producers." (Keith Marsden and Therese Belot, "Private Enterprise in Africa," World Bank Discussion Paper no. 17)

Even though World Bank studies and spokesmen repeatedly insist that the private sector is inherently more efficient than the public sector, the vast majority of Bank lending is still going to shore up foundering state-owned enterprises, government credit institutions, and political and bureaucratic control of Third World economies.

But such aid works against real private-sector-oriented reform. As Alan R. Walters, former chief economist for the Agency for International Development, notes, "Foreign aid . . . gives enormous resources and control apparatus to the local administrative elite and thus sustains the authoritarian attitudes corrosive to the development process." (*Washington Times,* March 6, 1987) P. T. Bauer of the London School of Economics recently observed, "Third World rulers' policies, which have been supported for decades by official Western aid, accord with their own interests. They will modify them only if continued pursuit promises to result in economic breakdown threatening their political survival." (*The New Republic,* June 15, 1987)

Bankrolling Communism

Loans to communist governments have been the fastest growing part of the bank's portfolio in the 1980s. An aid agency desperate to find new recipients has found them in the worst managed economies in the world.

The bank has plowed over $4.7 billion into Yugoslavia. Today, the Yugoslavian economy is in shambles, inflation is over 120 per cent, and the economy is so rigid and controlled that the different states of Yugoslavia have almost no trade with each other.

Since Hungary joined the World Bank in 1982, the bank has given it over $1.3 billion in subsidized loans. Hungary recently received a $140 million loan to "help the government maintain the momentum of the reform process and the restructuring of industry." (Bank News Release, June 15, 1987) But Hungarian reform is largely an illusion and a failure. (See James Bovard, "The Hungarian Illusion," *The Freeman,* September 1987.)

China is now the bank's second largest borrower, after India. The bank rushed into China as soon as Beijing announced that it would consider accepting foreign loans, and the bank has been searching for justifications for its China binge ever since. In a 1984 statement, a bank official asserted, "If China is to maintain a reasonable growth rate and manageable debt service payments, it will need to obtain the necessary additional foreign capital at an average interest rate below the market rate." (Helen Ericson, "World Bank to Boost China Loans," *Journal of Commerce,* January 6, 1984) In other words, the Chinese economy is so poorly managed that it needs subsidized loans.

Now the Soviet Union appears to be on the verge of gaining World Bank membership—and subsidized loans. World Bank president Barber Conable has stated that he would be "happy" to consider Soviet membership, and Undersecretary of State John Whitehead has said that the U.S. "would like to see the Soviet Union become a member of" the World Bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade. (*New York Times,* March 6, 1987)

World Bank projects have often caused great environmental harm.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

In Kenya, the World Bank has invested over $29 million in the Bura irrigation project. But, when President Moi toured the site recently, he found "eroded irrigation canals, abandoned plots, poor crops, tumbledown and unsanitary housing, zebra grazing on irrigated land, and an air of general desolation and decay." According to *African Business,* "a confidential World Bank mid-term evaluation reported at the beginning of 1985 that Bura's tenants, aside from being so disaffected that a fifth of them had deserted their plots, suffered mortality and morbidity [rates] several times higher than the national average." Even though the project had invested almost $50,000 per family, the bank report noted severe and widespread malnutrition among "beneficiaries." (Barbara Gunnell, "The Great Bura Irrigation Scheme Disaster," *African Business,* April 1986)

The bank recently made a $450 million loan to Brazil for hydroelectric projects, even though the bank's president conceded that one of the dams was "an ill-conceived project which has had substantial negative effects on the environment and on the AmeriIndian population." (A. W. Clausen letter to Bruce Rich, June 26, 1986) Hugh W. Foster, U.S. representative to the Bank's Board of Executive Directors, complained that the loan is "pure folly," that it will finance "a series of environmental disasters," and that resettlement efforts are sure to bring "extensive human suffering and bitter recriminations." (Statement to the Board of Executive Directors, June 19, 1986)

The bank is spending almost half a billion dollars to dam up the largest westward-flowing river in India, a massive scheme that will displace over two million people, flood 900 square kilometers, and destroy 33,000 hectares of the country's dwindling forest cover, including some of its best teak and bamboo. A study by the Indian Council of Science and Technology predicted that the dam will result in increased malaria, cholera, viral encephalitis, and other water-borne diseases. (Ashish Kothari, "This Dam Spells Doom," *Express Magazine* (India), September 22, 1985)

Conclusion

After scores of World Bank loans, most less developed countries still have policies that would qualify them for an economic insane asylum. If the bank has not straightened out Third World economic policies after disbursing over a hundred billion dollars in loans and handouts, what chance is there that increased bank lending will correct the problems in the future?

The World Bank claims that adjustment requires austerity, and we must give governments extra aid to help them adjust. But, in most cases, what is needed is not belt-tightening but simply that governments loosen the noose around their own economies.

Western governments cannot wrap themselves in a cloak of virtue because of their World Bank donations. At the same time Western aid to Third World countries has increased, the United States and Europe have raised new barriers against Third World imports. First we give them money to make them more productive, and then we refuse to allow them to sell us what they produce.

It would be more beneficial, and far more effective at encouraging healthful Third World economic policies, if we simply stopped giving handouts and simultaneously abolished trade barriers against Third World imports. Dominican Republic farmers, for example, would benefit more from open access to our sugar markets than from a handout to their government. And Americans, instead of being taxed to underwrite boondoggles in Timbuktu, could buy goods at lower prices. Free trade would mean less waste and more efficiency here and abroad, rather than higher taxes here and more government intervention throughout the world. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A Visit to Nicaragua

by Lawrence W. Reed

Last November, three colleagues and I visited Nicaragua for a week. It was the time when the democratization requirements of the Central American peace plan were to take effect. The place was crawling with American reporters and politicians.

It was also the week in which the fallout from a high-level defection kept Managua buzzing with both fact and rumor. Major Roger Miranda, chief staff officer to the country's defense minister and privy to the government's most classified secrets, had fled into the waiting arms of the American CIA with documents galore. The Costa Rican ambassador to Managua told us that Miranda's defection had the Sandinista leadership biting its nails and burning the midnight oil.

But as the government of President Daniel Ortega struggles to contain the Miranda damage, comply with the demands of its Central American neighbors for peace and democracy, and turn back the increasingly popular appeal of the "Contra" rebellion, it faces a problem potentially more threatening than all the others. Nicaragua's economy is rapidly descending into utter chaos.

"By every economic measure imaginable," reports *Time* magazine (November 16, 1987), "the country has become considerably poorer" since the Sandinistas brought their Marxist agenda into play in 1979. The purchasing power of the average person with a job (many have none at all except what they conjure up illegally) is less than 10 per cent of what it was just seven years ago.

Professor Reed is President of The Mackinac Center in Midland, Michigan, and chief economist for James U. Blanchard & Company, based in New Orleans, Louisiana.

Almost everything is allocated according to a tightly controlled rationing system. Each family is limited to two bars of soap, two rolls of toilet paper, one stick of deodorant, and one small tube of toothpaste per month. Milk, sugar, and chickens are rationed, too, but often are not available at all for many days at a time.

The rice ration has been cut to one pound per person per month, down from five pounds three years ago. Armed militiamen check each shopper's bag as he leaves the store to be sure no one "deviates" from the plan.

If you're a Nicaraguan lucky enough to have a car, you're entitled to no more than 17 liters of gasoline for a whole month. Ration stamps for the precious fuel are adorned with pictures of the deceased Carlos Fonseca, a Marxist who helped found the Sandinista organization in Havana, Cuba, 26 years ago.

Lines at gas stations are often more than 50-cars long. People literally push their autos for hours, one car-length at a time, as they advance in line with no assurance that the gas won't run out before they get to the pumps.

One of our cab drivers, a middle-aged man named Armando whom I had befriended on an earlier visit in April 1986, said 17 liters of gas "only lasts me two days." The rest of the gas he needs he finds on the black market, a network of illegal transactions which most Nicaraguans now utilize in order to survive.

"When my car finally breaks down," Armando told us, "that's when I'll make my plans to leave the country." Spare parts are impossible to find or too expensive to buy, which explains why Managua streets look like a vast and mobile auto junkyard.

A special segment on PBS's *McNeil-Lehrer News Hour* last November 13 made the point that in shortage-plagued Nicaragua, "among the few things that always seem to be available are the complete works of Marx and Lenin." On many occasions, Sandinista officials have proclaimed that the doctrine of Marxism-Leninism is "inseparable" from their ongoing revolution. We saw lots of the stuff all over Managua.

Just because something is on the shelf, however, doesn't mean it's affordable. Inflation is so bad in Nicaragua that prices quoted this week are almost sure to be obsolete next week.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Reliable economic statistics are nonexistent in the country, but most estimates put the inflation rate at more than 1,000 per cent and accelerating.

In April 1986, one American dollar fetched 800 Nicaraguan *cordobas* at the legal rate, 2,000 on the black market. In November 1987, the official rate was 9,500 while on the street the rate was 18,000.

Last October, the government emptied its warehouses of unused 20-*cordoba* notes. Because today's prices make such a small denomination essentially worthless, the government added three zeroes to make each note 20,000 *cordobas*. It used black ink stamped on the face of each note. The money supply was thereby expanded enormously all at once. On the very day we departed the country, most prices were scheduled to triple.

Government Controls

Under the Sandinista program, virtually all prices and wages are fixed by the central government. Farmers must sell nearly all their production to the government at prices it decrees. No one imports or exports except through the government. The bureaucracy is so all-encompassing that Nicaraguans complain about having to be screened by local Sandinista political committees before they can even apply for a driver's license.

Ask ordinary citizens who is at fault for the economic crisis and overwhelmingly one finds the government, not the war, is blamed. More than one person noted that Nicaragua had war under Somoza (the ousted dictator) for a longer time than under the present government, but things never got anywhere near as bad as they are now.

One lady who had been waiting for two hours in a bread line complained bitterly, "The war has little to do with this mess; it's the government's planning that's at fault."

Many others mentioned the war with the U.S.-backed Contra rebels as a factor in the economy but said that if it hadn't been for the Sandinistas' economic and political policies, there wouldn't be a war. Sentiment for the government's official line—that the present problems are all caused by Ronald Reagan and the Contras—is not easy to find in Managua, and even tougher to locate in the countryside, where support for the rebels is broad-based and growing.

Poverty, always a problem in Nicaragua, has become pandemic. Few if any are starving, but many people are hungry and uncertain when or if their next meal will come. At a dump adjacent to Managua's famed "Eastern Market," city trucks unload garbage each morning. Whole families scavenge barefoot through the debris, sending a mass of flies in the air with every step as they search for half-eaten bits of food.

Just five minutes away, however, foreign visitors wine and dine at the posh Intercontinental Hotel. A favorite hangout for media people and pro-Sandinista foreigners, the Intercontinental features a lavish buffet every morning. The government takes good care of those who come to see what the revolution has accomplished.

By February of this year, the street value of the Nicaraguan cordoba had plummeted to 60,000 to the dollar. At that point, the Ortega government suddenly announced a three-day conversion of all "old" cordobas to "new" cordobas. All citizens had to exchange the old for the new at the rate of 1000 to 1 before the old one became worthless and illegal at the end of the three days. In a particularly draconian move, the government decreed that no one could exchange more than 10 million old cordobas; many merchants had much more than that amount. Ortega also appealed to the people to "fight inflation by refusing to buy overpriced goods or to accept jobs paying more" than those they held. He dispatched a wave of armed police to confiscate the property of "unlicensed merchants, speculators and black marketeers."

The economy of this Central American nation of 2.5 million people is a first-class basket case and getting worse. The implications for the Sandinista government are ominous. Massive infusions of aid from its Soviet and East-bloc comrades and a repressive political system may not be enough to stave off the kind of turmoil that has brought down other governments around the world. If the Contras don't get rid of the Sandinistas, as one political figure in Managua put it, maybe the economy will. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Africa and the Difference Between Growing Food and Eating It

by David Osterfeld

A recent article dealing with the food problem in Africa lamented the fact that "in 1984 140 million of its 531 million people were fed entirely with grain from abroad" and that "in 1985 the ranks of those fed with imported grain may have reached 170 million."[1] The article is hardly unique. In fact, studies dealing with Africa's deteriorating economic plight almost invariably focus on the continent's declining agricultural output.

The problem is that, *by themselves,* the figures prove little or nothing. In fact, historically, the conversion of cropland to nonfarm use has been a sign of economic advance. There is little doubt, for example, that the average American is better fed today than, say, in 1776 when a much larger proportion of the cleared land was devoted to agriculture and over 90 per cent of the people were farmers. By the same token, the average American is better fed today than he was in 1776, even though only about 3 per cent of the population is directly involved in farming.

This pattern is not confined to the United States. It is a universal, historical pattern. Thus, if one could draw any conclusion from the above figures, it would be that they are an indication of economic advance in Africa, not decline.

David Osterfeld is Associate Professor of Political Science at St. Joseph's College in Rensselaer, Indiana.

But, it is common knowledge that the economic situation in much of the African continent is perilous. The number of deaths from the recent famine is generally placed at one million.[2] According to World Bank data, the low-income economies of Sub-Saharan Africa have an average per capita income of only $210. And while Africa is the only continent in which incomes have fallen, averaging a 0.1 per cent decline per year for the last two decades, what is most alarming is that the rate of decline has been accelerating.[3]

How can one explain the seeming paradox between regional declines in agricultural output, which is historically associated with economic advance, and falling incomes, an obvious indication of economic deterioration?

Excluding theft, there are three basic ways in which individuals can provide for their own and their families' needs: they can (1) produce *directly* for their own consumption, i.e., engage in subsistence agriculture, (2) produce for their consumption *indirectly,* i.e., produce for the market and then use the income obtained to supply their needs, or (3) engage in some mix of the two.

Direct and Indirect Production

Direct production requires one to be the proverbial "jack-of-all-trades." And that means, to finish the proverb, that one is condemned to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

be "master of none." By definition, direct production precludes specialization and economies of scale, and thus those engaged in it must forfeit all of the associated economic benefits. Thus, such forms of direct production as subsistence farming are characteristic of economically backward economies.

The simple fact is that some areas are better suited for growing certain types of food and agricultural products than other areas. Recognition of this fact opens up the possibility of specialization and gains from trade. Some farmers specialize in growing bananas while others specialize in corn. Since neither can use nor want to use all that they produce, bananas will be traded for corn or other items. But since specialization increases productivity, there is more of everything to go around. Thus, the transition from subsistence to cash-crop farming represents significant gains in utility for members of the society.

Similarly, as farm output increases and markets expand, some individuals and families find that the best use for their land lies in such nonagricultural pursuits as industry, manufacturing, or services. That is, some people discover that the best way to feed and provide for themselves is not to grow food at all, but to produce other things, sell their products, and then purchase the food they need. Production for the market—because of the tremendous gains in both productivity and utility resulting from the division of labor, specialization, and free trade—is a far more efficient method of satisfying one's needs than direct, subsistence production.

Africa's Plight

The basic "food problem" in the world today is not one of shortage but of surplus. As Barbara Insel of the Council on Foreign Relations has put it, "the world is awash in grain."[4] World-wide production of wheat and feed grains has grown 20 per cent over the last decade and 100 per cent since 1964. Many nations that traditionally have been major food importers, China and India to name but two, are now food exporters.[5] The result is that world grain stocks currently exceed 190 million tons—enough, Insel notes, to feed all of the hungry in the African sub-continent for the next 50 years.

Governments in the United States and Europe have programs designed to reduce farm production. Some land in Europe and America is being withdrawn from agricultural production and, as farm productivity in these countries rises, the percentage of the population engaged in farming continues to fall. In fact, according to John Harris, owner of Harris Farms in Coalinga, California, if the United States had not experienced a cycle of very poor weather in recent years the surpluses would have been even larger. "At this point," says Harris, "farmers have become capable of producing a surplus of just about everything."[6]

Put differently, farm output could easily be increased substantially. The consensus is that the earth is capable of feeding and clothing at least 11 billion people, or twice the current world population.[7] And some authorities, such as the late Herman Kahn, feel that this is a very conservative figure.[8]

It is clear that the basic problem in Africa is not really a food problem at all. It is a poverty problem. The reason so many Africans are starving or suffering from malnutrition is not that there is a shortage of food, but that they do not have the means to purchase it. The problem, as economists put it, is a lack of effective demand. This raises the questions: Why is Africa so poor? Why is Africa the only area of the world where per capita incomes are declining?

Comparative Advantage

To deal with this question, we need to draw upon the principle of comparative advantage. While the reasons frequently offered to explain Africa's plight range from the belief that the Western nations "control" international markets and deliberately have subjected the nations of Africa to unfavorable terms of trade,[9] to the argument that Africa's workforce is unskilled and capital is relatively scarce,[10] a common argument is that Africa is poor because it simply cannot compete on the world market. Since the nations of Africa are "harmed" by foreign trade, the logical conclusion is that they would be better off severing

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WIDE WORLD

Yam farming in Ghana.

their economic ties with the rest of the world. This argument is fundamentally unsound.

The economic argument for free trade is premised on the "Law of Comparative Advantage," formulated by the English economist David Ricardo (1772-1823). This law, simply stated, says that "If the greatest possible advantages of foreign trade are to be secured for all, each nation should devote itself to what it can do most cheaply."[11] In view of the foregoing objection that Africa is hurt by free trade because *everything* that it can do can be done more cheaply by other nations, the expression "what it can do most cheaply" needs careful definition.

Whether *everything* can be produced more cheaply elsewhere is debatable. It is also irrelevant to the question of whether free trade would benefit the nations of Africa. What is relevant is not *absolute* but *relative* advantage. The two are quite different.

For example, assume that Howard is both a better chef and a better dishwasher than Fred. Thus, Howard possesses an absolute advantage over Fred in both jobs. But if Howard's advantage over Fred as a chef is greater than his advantage as a dishwasher then it would be in Howard's interest to specialize in cooking, leaving the dishwashing to Fred. Similarly, if Fred were a better dishwasher than a chef, even though inferior in both to Howard, it would be in Fred's interest to specialize in dishwashing, leaving the cooking to Howard. Thus, even though Howard were better at both cooking and dishwashing than Fred, Fred would still have a *comparative* advantage over Howard in dishwashing. And both would benefit by specializing in that area where their comparative or relative costs were cheaper.

What is true for individuals is just as true in this case for nations and regions. As the British economist Roy Harrod puts it, the gain from

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

free trade "depends on the relation between the ratio of the cost of production of A to that of B at home and the relation of the cost of production of A to that of B abroad. *Gain is possible if the relations are different.*"[12]

Government Intervention

We can now deal with the question of Africa's continuing poverty. Three areas of the economy will be examined: (1) the farm sector, (2) the nonfarm sector, and (3) capital investment.

1. The Farm Sector. There is general agreement that Africa has tremendous agricultural potential. For example, Herman Kahn believed that Africa contains as much as 700 million hectares of *potentially* cultivatable land (one hectare equals 2.47 acres), or about three and a half times the amount currently cultivated in the United States, and more than double that in the industrialized countries of North America and Europe combined.[13] The World Resources Institute put the figure even higher, at 760 million hectares, but found that only about 160 million hectares are under cultivation.[14]

The real controversy is about the *cost* of bringing those additional areas under cultivation. Some researchers, such as Nick Eberstadt, David Hopper, D. Gale Johnson, Herman Kahn, and Doreen Warriner, believe that this can be done at relatively little cost.[15] Kahn, for example, maintained that eradication of the tsetse fly at an estimated cost of $20 billion would open up about 200 million hectares of land to cultivation. And proper irrigation would add an additional 300 million hectares. While cost estimates vary from a low of $218 per hectare to a high of just over $1000 per hectare, Kahn argued that given the productivity of the new land "such costs should be no great deterrent in a world of growing affluence, even if they should run as high as $2000 per hectare." In fact, since so much of the continent is located in tropical and semitropical regions where the growing season is quite long, much of Africa, argued Kahn, is ideally suited for multicropping.[16]

Other researchers, such as Lester Brown, Christopher Wolf, and the World Resources Institute, are not nearly as sanguine. According to the World Resources Institute, "Africa is not particularly well suited to agriculture. Over 80 per cent of its soils have fertility limitations and the climate in 47 per cent of the continent is too dry for rainfed agriculture."[17] Consequently, conversion to cropland would require massive irrigation or the introduction of new, drought-resistant crops, both of which, the Institute believes, are far too expensive for African farmers. Moreover, multicropping would result in high levels of soil erosion and rapidly deplete the soil of its nutrients, both of which would have a "significant deleterious effect" on fertility. While this could be offset by increased use of fertilizers and such methods as no-till and minimum-till agriculture coupled with the use of herbicides, the cost for most of these measures is generally more than the African farmer can afford.

If Kahn and others who emphasize Africa's tremendous agricultural potential are correct, one might ask why more land isn't being cultivated. If Africa does have a comparative advantage in agriculture, why is it the only part of the world where per capita output is falling?

The simple fact is that following independence, many African governments adopted highly interventionist if not outright socialist policies. The purpose of these policies was to stimulate the industrial sector; their effect was to penalize the agricultural sector. These policies included high taxes, often in excess of 50 per cent, on agricultural products; price controls on food; monopolistic marketing boards; the abolition of the private sale of food products and farm implements, often brutally enforced; coercively established and maintained state farms; land reforms that placed farmers' land, especially that of the more prosperous farmers, in perpetual uncertainty; and acreage limitations on the size of "private farms" that were often so low as to preclude the use of mechanized equipment.[18]

There is little doubt that these policies, which amounted to nothing short of an assault on agriculture, resulted in a drastic reduction in agricultural output. Africa was a net exporter of food in the 1930s, and self-sufficient in food during the early 1950s. But by the 1980s it was a major food importer.[19] Between 1960 and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

1985 Africa's per capita food production fell by 25 per cent. There is little doubt that much, if not all, of this decline was self-imposed.

Africa lost its comparative advantage in agriculture, but the reason for the loss was ill-advised government policies which penalized farmers and discouraged investment in the agricultural sector. This is easily shown. Not only was Africa a net exporter of food *prior* to massive government involvement in agriculture, but we can observe the results of the agricultural reforms introduced by several African nations, such as Zaire, Zambia, Ghana, Togo, Nigeria, Cameroon, Madagascar, and Guinea, in the wake of the 1984-85 famine that racked the continent. Marketing boards were abolished in some countries, price controls were lifted in others, and the private sale of farm produce was reintroduced in still others. In Nigeria and Ghana, for example, prices paid to cocoa farmers tripled. In Zaire, prices for cassava tripled; those for maize doubled. Agricultural output responded to these reforms by rising almost immediately. In Ghana, for example, maize production tripled; cotton production in Togo doubled; agricultural output in Zambia rose by 20 per cent in two years.[20]

The evidence appears to indicate that Africa does have a natural comparative advantage in agriculture. Poor agricultural production has stemmed primarily, if not solely, from government policies that undermine the incentive to produce. And so long as government policies continue to be biased against the agricultural sector, the African farmer will remain poor, the investments required to increase productivity will not occur, and farm output will remain low. In brief, government policies have turned African agriculture into an economic dead end.

2. The Nonfarm Sector. There are two possibilities for the nonfarm sector. First, even if Africa has a natural comparative advantage in agriculture that has been blocked by government intervention, one would expect to find capital and labor being employed in those areas of the nonfarm sector that are the most productive alternatives to agriculture. Even though these areas would be less profitable than a freed-up agricultural sector, they would be the most profitable of the remaining areas, and one would still expect incomes to rise as productivity in these areas increased.

Alternatively, if Africa's comparative advantage lies not in agriculture but in one or more areas in the nonfarm sector, one would then expect to find factors of production entering those areas. Similarly, incomes would rise as productivity in these nonfarm areas increased and output expanded.

Either way, rising incomes would enhance the ability of people to secure food and satisfy other needs.

Unfortunately, the governments of Africa have also intervened heavily in the nonfarm sector. In their attempts to stimulate industry they have enacted high tariffs and imposed an extensive network of licensing restrictions, subsidies, minimum wage rates, and the like.[21] The results should have been predictable: since tariffs and licensing restrictions would not be required if the industries or firms had a comparative advantage, such protectionist measures mean that resources are transferred from areas in which they are more productive and into areas where they are less productive. Since the result is the artificial substitution of relatively high-cost, inefficient local production for lower-cost, more efficient foreign production, everyone, except perhaps the domestic producers, is made less well off.

Similarly, since minimum wage laws increase the cost of labor, they artificially reduce the number of jobs available, i.e., the number of individuals that firms can afford to hire. The tragedy is that the ones most hurt by such laws are the poor. Since they are the least productive members of society, they are the ones such laws price out of the job market. In short, in the name of stimulating industrialization, governments in Africa have enacted policies that benefit a privileged few while severely restricting income-earning opportunities for the members of society in general. Thus, regardless of their intent, such policies have *retarded if not completely blocked* economic development.

3. Capital Investment. Given the high rate of unemployment and relatively low labor costs in Africa, one would expect to find capitalists investing heavily in the continent. In fact, about 80 per cent of all foreign investments go

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to developed countries. Of the 20 per cent invested in the less-developed countries (LDCs), almost two-thirds are concentrated in 13 countries. None is African.[22] This is not surprising, in view of the extensive restrictions imposed on foreign capital, the ideological commitment of African governments to socialist policies, the ever-present possibility of nationalization, and the loss of Africa's comparative advantage in cheap labor due to minimum wages and other interventionist measures.

In short, in the name of stimulating industrialization, African governments have pursued policies that not only have penalized economic activity in the farm sector, but have eliminated opportunities in the nonfarm sector as well. By adopting policies that retard or even prevent economic development, African governments have needlessly condemned very large segments of their populations to perpetual and grinding poverty.

Africa's Economic Future

There are three possible courses that African governments can pursue in the future: (1) continuation of the status quo, (2) economic autarky, or (3) *laissez faire*. Each will be discussed.

1. *Continuation of the Status Quo*. One possible course of action is to continue the policies currently in place. This seems unlikely for most African countries. The recent famine clearly has shown the bankruptcy of these policies, and many countries are contemplating or have already adopted reforms of some type.

2. *Economic Autarky*. A second possibility would be to adopt policies of economic autarky, or self-sufficiency. In fact, some countries currently are pursuing policies with just that end in mind. The New International Economic Order, passed by the United Nations' General Assembly in May 1974, encouraged the LDCs to adopt policies leading toward economic autarky. The Declaration, which refers to the nationalization of foreign-owned property as an "inalienable right" which is nothing more than "an expression of the . . . sovereignty of every State" is replete with such phrases as the "full permanent sovereignty of every State over its natural resources and all economic activities" and "the right of every nation to adopt the economic and social system it deems most appropriate." Such sentiments obviously are incompatible with the economic interdependence of nations. The New International Economic Order encourages the LDCs to adopt highly interventionist policies that, logically pursued, would result in economic autarky.

The Lagos Plan for Action adopted in March 1982 by the Organization of African Unity, likewise calls for "the development of agriculture" with the goal of achieving economic, and in particular, food "self-sufficiency" for the African continent.[23] And some countries are pursuing national self-sufficiency. Nigeria, for example, has banned the importation of wheat, rice, corn, vegetable oil, and most other food items. The goal, according to the Minister of Information, is "to encourage local substitutes." Nigeria hopes to achieve food self-sufficiency by the end of 1988. As a result of the ban, prices for some farm products such as cocoa have quadrupled.[24]

There is no doubt that a policy of food self-sufficiency would stimulate food production. But this only means that resources formerly employed in the nonfarm sector would be transferred to the agricultural sector. To the extent that this transfer is the result not of a *natural* comparative advantage in agriculture but of its *artificial* stimulation created by the ban on food imports, domestic resources will have been transferred from more to less productive uses. The long-run result will be that *everyone* involved, including the farmers, will be less well off. Resources will have to be transferred from industries that produce goods at a comparative advantage—industries that produce goods at relatively low cost, export them, and use the income to purchase goods and services that either cannot be produced domestically or can be produced domestically only at a higher price than the cost of imports. The resources then will have to be transferred into the production of goods at which the country is at a comparative disadvantage—goods for which the cost of domestic production is higher than the cost of imports.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Clearly, the smaller the area, the greater the harm. Thus, the collective or continental autarky proposed by the Lagos Plan for Action would be less harmful than the policy of national self-sufficiency pursued by Nigeria. This can be easily shown.

Assume that a single individual, Fred, were living in a state of autarky while the rest of the world engaged in free trade. It is obvious that Fred would suffer far more from being cut off from world trade than the rest of the world would suffer from not being permitted to trade with Fred. Conversely, while both Fred and the rest of the world would gain if the ban were lifted, the gains to Fred would be immensely greater than the gains to the rest of the world. Put differently, if trade is opened between two formerly isolated markets, individuals in both markets will gain but those in the smaller market will tend to reap the larger benefits. And the greater the difference in the size of the markets, the larger the gains to those in the smaller market. This is what Roy Harrod has termed "the importance of being unimportant."[25] Thus, while the policy of continental autarky would be damaging to the people of Africa, it would not be nearly as damaging as Nigeria's policy of national autarky would be to the people of Nigeria.

A policy of economic autarky must, of necessity, forgo numerous possible gains from trade, thereby making everyone, but especially the people of the nations pursuing such a policy, worse off. Recent World Bank studies on the impact of protectionist measures support this conclusion. Both the industrialized market countries and the LDCs would reap significant benefits from "liberalization," i.e., the elimination of tariffs and other protectionist measures. But "the main beneficiaries of unilateral liberalization," according to the World Bank, "are the liberalizers themselves."[26]

3. *Laissez Faire.* A final possibility is a move toward *laissez faire*—the elimination of all measures, domestic and foreign, prohibiting the free movement of people, goods, and capital. By removing all obstacles to the movement of factors of production, such a policy would increase the efficiency of the world market by allowing all factors to be employed in their most value-productive uses. By increasing the number of goods and services produced in the world, the enhanced efficiency would benefit everyone but, once again, the residents of the LDCs in particular, since these countries tend to be more interventionist than the more developed industrialized countries.

Again, studies by the World Bank support this conclusion. The World Bank classified countries according to their degree of "price distortion" or market intervention. It found that the greater the degree of intervention, the slower the rate of growth. Those nations with a "low distortion index" had a rate of economic growth that was more than double those with a "high distortion index" (6.8 per cent vs. 3.1 per cent); the savings-to-income ratio in those countries with a low distortion index was almost twice as high as in those with a high distortion index (21 per cent vs. 13 per cent); the annual industrial growth rate in the low distortion countries was triple that in the high distortion countries (9 per cent vs. 3 per cent); the growth in agricultural production was considerably higher for the former countries than the latter (4.4 per cent vs. 2.4 per cent); and the annual export volume increased almost ten times faster in the low distortion countries than in the high distortion countries (6.7 per cent vs 0.7 per cent).[27]

The conclusion seems inescapable. The solution to Africa's "food problem" lies in solving its "development problem." And the solution to its "development problem" lies in adopting a policy of *laissez faire*. Only through a policy of *laissez faire* is it possible to determine precisely where Africa's natural comparative advantage lies. And allowing individuals the freedom to pursue what is in their comparative advantage is the best and quickest road to economic development. Whether it lies in the production of food for domestic consumption, the production of food for export, or in nonfood production is irrelevant.

If Africans can earn higher incomes by exporting food or other products than they can by growing food solely for domestic consumption, so much the better. For the higher incomes mean that they are in a better position to satisfy their own and their families' needs than they would be if they were to grow food strictly for

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

domestic consumption. Even though it may seem paradoxical, growing food may not always be the best way for hungry people to feed themselves.

For the past two decades most African nations have pursued highly interventionist policies. The bankruptcy of interventionism was clearly revealed by the recent famine. As a result, many nations have been forced to reassess their economic policies. Two alternative paths are possible. They can move farther down the interventionist road to complete autarky, or they can reverse their course, begin to dismantle their interventionist programs, and move in the direction of *laissez faire*. Both economic analysis and the empirical data show that only a policy of *laissez faire* offers real hope for improvement.

Some have objected that because of such disabilities as Africa's reputation for a poor business climate, its lack of a skilled workforce, pervasive political corruption, and the sorry state of the continent's "infrastructure," (roads, harbors, etc.), integration into the world market would consign Africa to a strictly "marginal role."[28] This may be true for the present. But that does not alter the fact that *laissez faire* remains the best and quickest road to economic development. Moreover, the objection ignores the fact that what is in an individual's or a region's comparative advantage today may not be in its comparative advantage in ten or fifteen years. Economic circumstances change, and it is precisely a policy of *laissez faire* that, by facilitating the efficient allocation of resources and encouraging savings and capital investment, is necessary for Africa to overcome these disadvantages and escape from its "marginal role."

In short, the path to overcoming Africa's food crisis is economic development. And the path to economic development is a policy of *laissez faire*. □

1. Lester Brown and Christopher Wolf, "Reversing Africa's Decline," *State of the World 1986* (New York: Norton, 1986), pp. 177-78.

2. World Resources Institute, *World Resources 1986* (New York: Basic Books, 1986), p. 55. On the current situation in Ethiopia, the country hardest hit by the 1985 famine, see Tom Masland, "Familiar Specter of Death Returns to Ethiopia," *Chicago Tribune*, (December 20, 1987), Section 1, p. 1.

3. World Bank, *World Development Report 1986* (New York: Oxford, 1986), p. 180, Table 1.

4. Barbara Insel, "A World Awash in Grain," *Foreign Affairs* (Spring 1985), pp. 892-911.

5. See Ward Sinclair, "The World Isn't Dying for American Farm Products Anymore," *The Washington Post National Weekly Edition* (January 13, 1986), p. 25; World Resources Institute, p. 43; "Peasants Rising," *The Economist*, (February 2, 1985), pp. 11-12; Gregg Easterbrook, "Making Sense of Agriculture," *Atlantic Monthly* (July 1985), pp. 63-78.

6. Easterbrook, p. 74.

7. See World Resources Institute, p. 44.

8. Herman Kahn et al., *The Next 200 Years* (New York: William Morrow, 1976), pp. 110-35.

9. Graciela Chichilnisky, *Basic Needs and the North/South Debate* (New York: Institute for World Order, 1982).

10. Richard Higgott, "Africa and the New International Division of Labor," *Africa in Economic Crisis*, ed. John Ravenhill (New York: Columbia University Press, 1986), pp. 286-306.

11. Roy Harrod, *International Economics* (Chicago: University of Chicago Press, 1963), p. 12.

12. *Ibid.*, p. 16. Italics in original. Also see Ludwig von Mises, *Human Action* (Chicago: Henry Regnery, 1966), pp. 159-64.

13. Kahn, pp. 124-25.

14. World Resources Institute, p. 42, Table 4.2.

15. Nick Eberstadt, "Famine Development and Foreign Aid," *Commentary* (March 1985), pp. 25-31, but especially pp. 25-26; W. David Hopper, "The Development of Agriculture in Developing Countries," *Scientific American* (September 1976), pp. 137-44; D. Gale Johnson, "World Food and Agriculture," *The Resourceful Earth*, eds. Julian Simon and Herman Kahn (New York: Basil Blackwell, 1984), pp. 74 and 95; see Gene Ellis, "Land Tenancy Reform in Ethiopia," *Economic Development and Cultural Change* (April 1980), p. 526 for Warriner's position; and Kahn, pp. 123-4.

16. Kahn, p. 124.

17. Brown and Wolf, pp. 177-98; Edward Wolf, *Beyond the Green Revolution: New Approaches for the Third World* (Washington, D.C.: Worldwatch, 1986); World Resources Institute, pp. 55-58.

18. Richard Richardson and Osman Ahmed, "Challenge for Africa's Private Sector," *Challenge* (January/February 1987), pp. 16-25; Christian Morrisson and Hartmut Schneider, "Economic Policy and Agricultural Performance in Low-Income Countries," *The OECD Observer* (April/May 1987), pp. 4-6; David Osterfeld, "African Famine: Harvest of Socialist Agriculture," *The Freeman* (October 1985), pp. 609-11.

19. Tony Jackson and Paul Park, "Africans Themselves Cause Famine," *Problems of Africa*, ed. Janelle Rohr (St. Paul: Greenhaven, 1986), p. 127.

20. Richardson and Ahmed, pp. 19-22; David Osterfeld, "Finally, Good News From Africa," *Seymour* (Indiana) *Tribune* (September 24, 1987).

21. Sara Berry, "Economic Change in Contemporary Africa," *Africa*, eds. Phyllis Martin and Patrick O'Meara (Bloomington: Indiana University Press, 1977), pp. 268-77; David Osterfeld, "Famine in Africa," *The Journal of Social, Political and Economic Studies* (Fall 1985), pp. 268-69.

22. Jean Edleman Spero, *The Politics of International Economic Relations* (New York: St. Martin's Press, 1985), p. 270; World Bank, pp. 206-07.

23. John Ravenhill, "Collective Self-Reliance or Collective Self-Delusion: Is the Lagos Plan a Viable Alternative?" *Africa in Economic Crisis*, ed. John Ravenhill (New York: Columbia, 1986), pp. 85-107.

24. James Brooke, "Nigeria Pushes Agriculture with Aim of Self-Sufficiency," *Indianapolis Star* (February 28, 1987), p. 51.

25. Harrod, pp. 27-28.

26. World Bank, p. 131.

27. World Bank, *World Development Report 1983* (New York: Oxford University Press, 1983), pp. 60-61. Also see E. Dwight Phaup and Bradley Lewis, "Winners and Losers: Differentiating Between High-Growth and Low-Growth LDCs," *U.S. Aid to the Developing World*, ed. Doug Bandow (Washington, D.C.: Heritage Foundation, 1985), pp. 80-81.

28. Higgott, pp. 290-91.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Home-Based Work: New Opportunities for Women?

by Joanne H. Pratt

The activities of women in the labor market reveal two contradictory trends. On the one hand, women are better educated and have more job skills and training than ever before. On the other hand, a substantial number of women are leaving executive suites and returning home to have children and care for their families.

Is there a way for women to resolve the conflict between the career goals for which they have been trained and the family goals that many want to pursue? For many women, the answer is home-based work. Surveys show that:

- As many as 23 million people are using their homes as a place of work.
- Among businesses that are run exclusively out of the home, more than 70 per cent are run by women.

Women are taking advantage of a number of important economic and technological trends. Advances in computer technology mean that millions of workers can "telecommute" from their homes. The growth of the service economy is opening the doors for millions of small businesses. Most are being launched from the home.

- Of the 8.2 million sole proprietorships in the U.S. in 1980, 63 per cent were located in someone's home.
- While the number of new sole proprietorships is increasing at a rate of 3.7 per cent per year, those started by women are increasing at a rate of 6.9 per cent per year.

Despite the enormous economic and social benefits created by home-based work, those who work from their homes face a maze of legal uncertainty arising from Federal, state and local regulations.

Local Laws. About 90 per cent of all U.S. cities place restrictions on home-based work. These include requirements that no outside employee may work in the home; only one family member may work in the business; only one business may be operated from each home; only one room of a house may be used for business purposes; a separate entrance must be maintained for business customers, and no business inventory may be stored in a garage. Among the many and sometimes bizarre regulations:

- In Blaine, Minnesota, a home-based tutor in math, English or a foreign language may not tutor more than one student at a time.
- In Long Beach, California, ministers, priests, and rabbis may not give religious instruction in the home.
- In Dallas, Texas, home-based businesses may not be listed in the yellow pages of the telephone directory.
- In Danville, Illinois, no one may sell goods in a home other than by filling an order previously placed by telephone.

Joanne H. Pratt's studies of home-based workers have been published extensively in scholarly and trade publications. This article is adapted from her report, "Legal Barriers to Home-Based Work," published by the National Center for Policy Analysis, 7701 N. Semmens, Suite 800, Dallas, Texas 75247.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

PAT WATSON

An Indianapolis seamstress in her workshop at home.

- In Southern Pines, North Carolina, there is a total ban on retail sales in the home and no inventory may be displayed in the home.
- In Downey, California, a garage may not be used for home-based work.
- In Rockford, Illinois, there can be no more than one home occupation in any single residence.
- In Chicago, there is virtually a total ban on home-based work, including a ban on connecting a home computer to an office computer.

State Laws. Many states ban entire categories of products from home production. These include cigars, artificial flowers, articles of food and drink, toys, dolls, bandages, purses, feathers, children's clothing, and cosmetics. When home production is allowed, it is often restricted to a small part of the labor market:

- In Hawaii and Illinois, the only people allowed to work in the home are people who are unable to leave home.
- In Massachusetts, no one under contract with an employer or business outside the home may produce goods in their home.

Federal Laws. After a protracted court battle, the U.S. Department of Labor has managed to liberalize restrictions on home knitting. However, Federal law still bans home production (for sale) of women's garments, embroidery, handkerchiefs, jewelry, buckles, mittens and gloves.

Many of these regulations needlessly interfere with valuable economic activity and have no apparent valid social purpose. They threaten to stifle one of the most important and growing sectors of our economy, and to place obstacles in the way of the economic and social goals of an ever-increasing number of women. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Campus Activities: Who Pays the Bills?

by Joseph S. Fulda

During my undergraduate years at The City College of New York in the late 1970s, I had some interesting experiences with student clubs, and I began to re-examine the whole matter of student activities and the way they are funded.

There seem to be four ills affecting student organizations which, according to friends and subsequent experience, appear to be pervasive on our nation's campuses.

First, the members of some clubs share few interests to draw them together. They do understand, however, that any group of students may organize and register with the student government and the college administration and thus receive a portion of the mandatory student fees collected by the college at the start of each semester. Thus I recall sitting through a two-hour meeting of a campus honor society where the sole topic of discussion was how to dispose of the generous sum we had been allocated. The debate might still be raging had it not been decided to spend it all on a grand party at the home of a student leader.

The second problem with many student organizations is that the leadership has little incentive to adhere to organizational charters. I recall one prayer-and-snack organization with a charter mandating annual elections. Yet several successive presidents simply appointed the other officers and their successors. When I pointed out to an officer that this was improper, I was asked whether I would prefer the secretariat or the treasury! "Private life," I replied. Of course, nobody really cares enough to take recourse. I didn't. After all, the monies are just there.

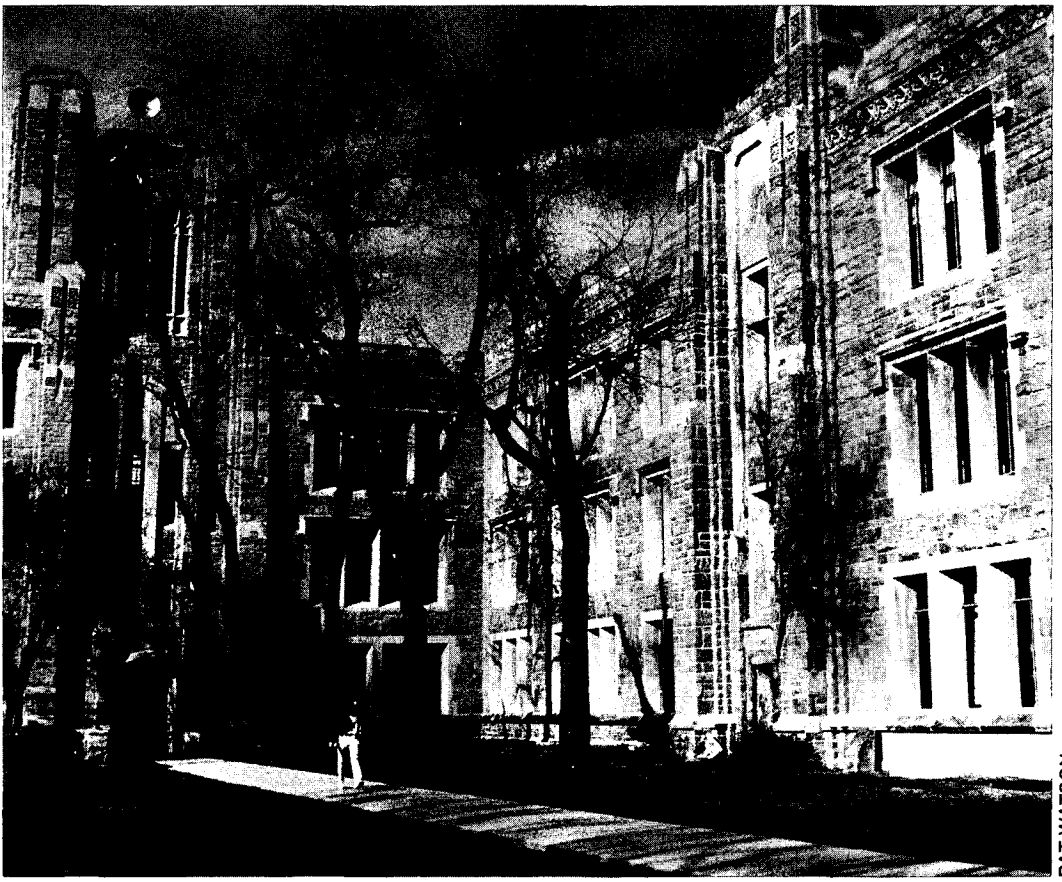
Third, club officers frequently divert funds for their own use: pencils, postage, bus fare, meals, maybe a month's rent! Our student newspaper, *The Campus,* was often filled with the latest scandal.

The fourth problem is that mandatory student fees distribute the costs of campus activities with an artificial uniformity. Those who care little about student activities subsidize the average user, while those who are very active are subsidized by the average user. The distribution of benefits is even more artificial. Typically, the student government decides on the apportionment of funds in its own inimitable way. Club officers must beg, cajole, and argue for funds. As I recall quite well, this leaves much to be desired.

Now there is quite a simple solution to all these problems. Why not limit student fees to cover such widely used items as the student center, athletics, and the student media? Maybe a piddling sum could be granted to the student government, too, for its advisory role. The remaining student organizations would be funded

Joseph S. Fulda, a regular contributor to The Freeman, *is Assistant Professor of Computer Science at Hofstra University and resides in Manhattan.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



PAT WATSON

solely by membership dollars. With the money from student activity fees returned to student pockets, it would be up to the individual whether or not to form, participate in, or pay dues to any club.

Notice how this simple measure addresses all the problems we have sketched. First, clubs whose members share no common bond would quickly dissolve, since their reason for existence—access to mandatory student fees—would be removed.

Second, when the members must pay dues, officers will be held accountable. "Taxation without representation," unless the officers maintain a consensus, would not be tolerated. If members are sufficiently dissatisfied with their club leaders, or with the way their money is being spent, they may simply withdraw along with their financial backing.

Third, the cost of campus activities to each student would depend on how much he used them. But because the overhead of the student activities bureaucracy can be eliminated—including student government oversight functions and some college administration supervision—the typical student user would end up paying less in dues than he saved in fees.

Last, the distribution of student funds would be done naturally, not artificially. The most popular clubs would receive the most money. And no clubs would be indebted to the student government or the college administration for their funds. They would answer only to their members. And that is how it should be. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Readers' Forum

To the Editors:

Professor Russell Shannon's essay, "Tear Down this Wall" in the January 1988 "Freeman" was idealistic and naive. His essay advocates open borders so that illegal aliens can freely enter the United States.

I shouldn't have to write the next paragraph, but I will anyway because I want your readers to know I am not a person who is afraid to see nonwhite immigrants enter this country.

My wife and I sponsored two Vietnamese families 12 years ago. This included bringing them into our home, food, money, clothing, buying them an auto and training them to drive it and finding jobs for them. Most of six months was spent getting these families on their feet. We're glad we did it and today "our" families are doing well and an asset to America.

But "open borders" won't work because of the social welfare system in place in the United States. Not all illegal aliens come to America for liberty and a job.

The United States provides such stunning incentives as free school, free lunch, food stamps, free health care, subsidized housing, unemployment compensation, Aid to Families with Dependent Children and many other freebies. The total package, even for an alien without a job, could well be many times what he could earn at home. And don't believe for a minute that the "invisible hand" of the free market would cause them to move on or go home if they didn't find a job here. Being rational they would recognize that the cost of departing would be too great. It's just too good a deal. That's why 88% of recently arrived refugees (first 31 months) in California are currently on some kind of county, state or federal welfare.

Cancel the welfare and then we can open the borders. Immigrants will then come to America for liberty and opportunity as they did a hundred years ago.

—William F. Kerschner
Elm Grove, Wisconsin

Professor Shannon replies:

I have no problem at all with Mr. Kerschner's argument that it is *not* desirable for us to have aliens flock here in order to become free loaders on our welfare and social service systems. By all means, let's make such people ineligible for these programs!

In practice, however, this may be difficult or impossible to accomplish. So, as an economist, I must ask: do the *overall* benefits of open immigration outweigh these (and other) costs. Several studies indicate that, indeed, the benefits do predominate. For more details, I recommend again reading the article entitled "What about Immigration?" written by Julian L. Simon which appeared in *The Freeman* for January 1986.

Finally, let me point out that the new immigration law, which now penalizes employers for hiring improperly documented aliens, has the regrettable feature of excluding immigrants who truly want to work. At the very least, we should hasten to tear down this portion of our wall.

—Russell Shannon
Clemson, South Carolina

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Property Rights and Eminent Domain

by John Hospers

Ellen Frankel Paul's *Property Rights and Eminent Domain* is an exemplary work of both historical scholarship and creative thought. It is a valuable historical and critical survey of dozens of U.S. court decisions involving property rights, and at the same time a philosophical defense of a theory of natural rights in property.

A long historical chapter, which occupies more than 100 pages, considers two legal concepts—eminent domain and police power—which between them have produced a devastating erosion of property rights in America. Eminent domain—the confiscation of private property for public use—seems to many people a necessary qualification of a person's right to own and retain property in land (especially with "due compensation") to enable roads and air terminals to be built and scenic land to be preserved. But the author shows, in a detailed and sobering array of court decisions, how this bit of "the camel's nose under the tent" has led the courts to decide that the power of eminent domain extends to an enormous array of cases never originally intended by the granting of that power, each decision extending that power in ways that would not have been tolerated in prior decisions.

In 1945, for example, when the Supreme Court ruled in *United States* v. *Willow River Power Co.*, where dam construction diminished the generating capacity of a power plant, Associate Justice Robert H. Jackson wrote, "not all economic interests are 'property rights'; only those economic advantages are 'rights' which have the law back of them"—the law being presumably whatever the legislature decided to enact. But even in 1945 the court would not have gone as far as it did in *Hawaii Housing Authority* v. *Midkiff* (1984) when it mandated the sale of property from one private party to another with not even a pretense of "public use."

The author points out that the federal government does not possess police power except where it holds original sovereignty (U.S. territories, public lands, the nation's capital). But the concepts of "due process" and "the general welfare" were gradually extended out of all recognition, issuing in a series of decisions which in time gave the government police power over virtually anything it wanted, including the fixing of prices of consumer products. For example, the court used the "po-

John Hospers is a professor of Philosophy at the University of Southern California and editor of The Monist. *He is the author of numerous books and articles on aesthetics, ethics, and political philosophy.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

lice power'' to approve the closing of a sand and gravel operation without compensation to the owners, by calling its action a ''regulation'' rather than a ''taking'' (which would have required the owners to be compensated for their loss). There are enough examples of this sort to chill the blood of any champion of economic liberty.

In the following chapter, Professor Paul develops a theory of property rights. She examines the theories of such historical figures as Pufendorf, Grotius, and Kant, finding each of them to be wanting in some respect. She gives a step-by-step analysis of John Locke's theory of property rights in land—that a right to ownership results from ''mixing one's labor'' with the portion of the earth on which one labors—and endorses it with certain amendments.

The human need without which no other needs can be met is that of survival, and survival requires mixing one's labor with the earth which one inhabits. No one's survival is guaranteed, but ''for each individual, pursuing the strategy that will maximize chances of survival—that is, make it the least contingent, the least dependent upon forces beyond his control, and the least reliant upon the actions of other individuals—will provide a foundation'' for the right to ownership of land. Moreover, since there are millions of persons inhabiting the earth,''grazing on the fruits of the earth will prove insufficient to sustain an abundance of human lives; therefore, production becomes a necessity.'' And since the maximization of production requires long-range planning and effort, the erection of boundaries also becomes a necessity. If there were no prospect that what one produced would secure one's survival, there would be little point in laboring to produce; but with property rights, the prospects for long-term survival are vastly increased. (What Professor Paul gives us is a systematically developed version of an outline of property-rights theory presented by Ayn Rand in her essay ''Man's Rights.'')

Environmental Concerns

The principal questions I would raise about this work have to do with the author's chapter on environmentalism and property rights. Environmentalism is something of a mixed bag; most environmentalists seem to be a bit mad, and cry wolf too often to be entirely believed. And the court decisions the author cites are not at all difficult to criticize. The California Coastal Initiative is an obscenity, having done far more harm than good even from a utilitarian standpoint (even more, of course, from that of property rights). To delay construction of the Tellico Dam because of a supposedly untransplantable snail-darter is somewhat ridiculous (though there may be other reasons against construction of the dam). The pessimistic projections of Malthus have been refuted by history, as have the predictions of doomsayers who have said for decades that we are about to run out of energy sources. Julian Simon's *The Ultimate Resource* is a welcome counter-blast to these doomsayers, and Lindsey Williams' *The Energy Non-crisis* provides a dramatic case history (among others) of environmental folly in closing off 95 per cent of Alaska to technological development.

Yet there is occasion for deep concern, a concern which bears directly on property rights. I shall consider only a few examples of many.

The wanton destruction of animal life by human beings has resulted in the extinction of many species of animals and the endangerment of others. The reasons for alarm are not only aesthetic—that we enjoy seeing animals in the wild—but also ecological. Each species is part of a vast interdependent ecosystem which, if once disturbed, can bring on catastrophic results. One does not have to attribute rights to trees (Christopher Stone in *Should Trees Have Standing?*), or allege that every animal has a right not to be killed (Tom Regan in *The Case for Animal Rights*), nor even adopt a ''species-neutral'' point of view (Peter Singer in *Animal Liberation*) assuming that this is possible. Even if one is concerned only with *human* survival, the elimination of plant and animal species, and the upsetting of the balance of nature, are matters of grave concern. (See, for example, Peter Farb, *Ecology*.)

For many centuries the African savanna has been the scene of countless animals free to graze, hunt, and roam, and countries such as Botswana have not had fences and other mani-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

festations of private property to inhibit these activities. Wild animals en route to their watering places today encounter the fences; unable to cross them, they die of thirst in large numbers.

Meanwhile, to support a growing human population, domestic cattle (not native to Africa) are raised in increasing numbers for export. To protect people and cattle against the tsetse fly, vast amounts of chemicals are sprayed from helicopters. The native animals are immune to the fly, but the spray poisons the vegetation and the water on which they depend. "But the residents have a right to grow cattle on their own land if they choose, don't they? There is more of a market for beef than for venison." And here the property rights in land conflict sharply with the need for retaining the natural links in the food-chain—the native plants and animals are part of a complex and interdependent ecosystem which is essential not only to the survival of thousands of species in Africa, but to human life as well.

The Amazon rain-forest, as large as the United States, is gradually being cut down to create industries and farms for a burgeoning urban population. Uncounted species of living things are destroyed and irrevocably lost in the process. "Don't Brazilians have a right to cut down their own forests if they choose to? Doesn't the land belong to them?"

But in the long view their actions are destructive for themselves and for others. The thin topsoil, once opened to the plough, goes down the rivers in the next flood, and in a few years there are only unarable scarred remains. And the disappearance of the rain-forest will almost inevitably lead to drastic climatic changes in the entire hemisphere. Farmers in the Midwest will wonder why the rains no longer fall; they will be bankrupted and America's food supply impaired. No part of the earth is an isolated system detachable from the rest of the planet.

Locke, Robert Nozick, and Professor Paul agree that no one should use this land in such a way as to harm others in the use of their land. Pollution is the example that is constantly used. But the destruction of the rain-forest, creating deserts where once the lands were fertile, is surely a far more compelling example of such harm—such use of the land imposes a drastic negative externality on others' use of theirs. Perhaps then the owners of the land have no right to cut down their forests, according to Paul's theory of property rights. But in that case, virtually any use of land anywhere in the world stands a fair chance of being harmful to productive use of land by others, perhaps thousands of miles away—and in view of this global interdependence, whose property rights would then remain secure? Sensible environmentalists need not resort to charges of "species-ism" or far-out theories about the rights of trees; they need only play their strongest card, the ecological interdependence of all the parts of the earth. □

Property Rights and Eminent Domain by Ellen Frankel Paul (Transaction Books, 1987, 276 pages) is available in hardcover at $26.95 (plus $1.00 U.S. mail or $2.00 UPS shipping and handling). To order, or to request a complete free catalogue of books on liberty, write Laissez Faire Books, Department F, 532 Broadway, New York, NY 10012-3956. (212-925-8992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A REVIEWER'S NOTEBOOK

Entrepreneurs vs. The State

by John Chamberlain

Burton W. Folsom, Jr.'s *Entrepreneurs vs. The State* (Young America's Foundation, Suite 808, 11800 Sunrise Valley Drive, Reston, VA 22091, 144 pp., $16.95 cloth) is about as neat a job as one could wish. To be sure, the overall thesis of the book is not new. We have had those who, like Matthew Josephson, have pinned the Robber Baron label on practically all of our Nineteenth and early Twentieth Century industrialists. Contrariwise, we have also had those who, like Allan Nevins, Robert Hessen, Louis Hacker, and John T. Flynn, have taken note that the consumer often had the last word if only because would-be monoplists could not be trusted to remain in price-fixing pools. But Folsom, with more clarity than any of the revisionists who have gone before him, has separated the great competitors from the monopolists who depended primarily on State favors. There were "political entrepreneurs" and "market entrepreneurs," and the dividing lines in retrospect are relatively clear.

Folsom finds it significant that Commodore Cornelius Vanderbilt, who broke the early Hudson River Steamboat Association and took gold-seekers to California by way of Panama and Nicaragua at cheap rates, made money where Robert Fulton and Edward Collins, who sought government grants, could not hack it. Vanderbilt went on to build the New York Central Railroad out to Chicago, becoming the richest man in America by his progressive cutting of passenger fares.

Vanderbilt was not imitated by the first railroad barons who sought to conquer the distances between the Mississippi River and the Pacific coast. As Folsom chattily puts it, the building of the early transcontinental roads makes for good reading. The story has a sound plot: four roads get charters and subsidies to build across the country. There is suspense as the Union Pacific and the Central Pacific race over the plains and mountains to meet at a golden-spike ceremony in Utah. The "all-star cast" includes U.S. Presidents, army generals and political adventurers who confront Indians on the warpath, politicians on the take, and thousands of Chinese and Irish workers.

The grab for Federal subsidies happened to be inordinately greedy. Historians have written this off, saying there was no way to get the happy ending without Federal aid. Leland Stanford and Collis Huntington in California, Henry Villard in the Northwest and the Union Pacific Credit Mobilier leaders are all excused for doing such things as "accidentally" destroying records that might have brought jail sentences.

The only trouble with the standard story is that an incorruptible man, James J. Hill, was busy building the Great Northern Railroad from St. Paul to the Pacific without a penny in subsidies at the very time that Henry Villard was going broke in spite of government aid. Where Villard had built swanky hotels and health spas in the wilderness, hoping to attract tourists, Hill sought to develop the land. He built slowly, developing exports as he went West. He imported 7,000 cattle from England and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

elsewhere, giving them to settlers near his line free of charge. He set up his own experimental farms to test new seed and livestock and the use of fertilizers. As for the railroad itself, he strove for durability and efficiency, not "scenery." "What we want," he said, "is the best possible line, lowest grades and least curvature. . . ." In 1889 Hill conquered the Rocky Mountains by finding the legendary Marias Pass where Lewis and Clark had gone in 1805. By rediscovering the Marias Pass, Hill shortened his route by almost a hundred miles.

New Opportunities

What Hill and Vanderbilt did for railroading, the Scrantons of northeastern Pennsylvania and Charles Schwab of Carnegie Steel did for the iron and steel business. The Scrantons built the country's first mass-produced iron rails and poured the profits into laying out the modern city of Scranton as a challenge to neighboring Wilkes-Barre. There were tariffs on rails and other iron products, but the Scrantons did not need them.

The history of the Scrantons corroborates the theory that both upward and downward mobility are distinctively American characteristics. As entrepreneurs, the first generation of Scrantons created something out of nothing. Not all of their descendants hung on to their shares of the family wealth. But because of what the original Scrantons did thousands of Americans had new opportunities in life.

As a steel master Andrew Carnegie was not averse to taking part in price-fixing arrangements. But he had no compunctions about deserting pools where there was a prospect for "scooping the market and running with the mills full." In his competitive zeal Carnegie had the stalwart support of Charles Schwab, who lowered the costs per ton of finished steel by 34 per cent in a single year by adding sixteen new furnaces to the Homestead, Pennsylvania, plant.

When Carnegie sold his company to J. P. Morgan for $480 million, Schwab went along in the package that resulted in the creation of U.S. Steel, the first billion-dollar company in U.S. history. Morgan was not sufficiently competitive to please Schwab, who wanted to do things his own way. Accordingly, Schwab left U.S. Steel to go to work for Bethlehem Steel, which he had bought as a private investment. He moved Bethlehem away from its dependency on government contracts, adopting open hearth technology because it could produce better rails than U.S. Steel with its antiquated Bessemer facilities.

John D. Rockefeller, the founder of the Standard Oil Company, figures in the Robber Baron literature as a veritable devil. In actuality he was a pious man who spent many hours each week attending church services. As John T. Flynn has shown in *God's Gold,* Rockefeller really meant it when he put the consumer first. In 1885 Rockefeller wrote to one of his partners, "Let the good work go on. We must ever remember we are refining oil for the poor man and he must have it cheap and good." Picking up from this, Isabel Paterson said "Standard Oil did not produce kerosene to pour it down the sink."

Rockefeller made one bad move when he joined a pool called the South Improvement Company, which was prepared to pay not only rebates but also drawbacks on oil that the bigger companies had not shipped. But no oil was ever shipped by South Improvement, which quickly lost its charter. Rockefeller later admitted he had been wrong in thinking pools were an answer to inefficient production. He turned his attention to market entrepreneurship, hiring chemists to extract every dollar possible from each barrel of crude.

Bigness was Rockefeller's reward for efficiency. But, big as it was, Standard had to meet the challenge of the new gushers tapped by upstart companies in Texas. And it had to fight the Russians for the international market. Summing things up, Folsom thinks the emergence of the market entrepreneur in the period before 1920 is proof enough that we do better when the government lets people keep their own money for their own investments.

"If we seriously study entrepreneurs," says Folsom, ". . . we will have to sacrifice the textbook morality play of 'greedy businessmen' fleecing the public until at last they are stopped by the actions of the state. But, in return, we will have a better understanding of the past and a sounder basis for building our future." □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

MARVA COLLINS' WAY

by Marva Collins and Civia Tamarkin

Jeremy P. Tarcher, Inc., distributed by St. Martin's Press, 175 Fifth Ave., New York 10010 • 1982 • 227 pp., $6.95 paper.

Reviewed by Bettina Bien Greaves

Marva Collins may not be a "super-teacher" as some have claimed. But she must have boundless energy. She also has a profound love of reading, a sincere interest in history, an infatuation with life, and a desire to share her enthusiasm with children. She also loves children and has a strong conviction that none is so dull that he or she cannot learn.

Mrs. Collins spent fourteen years, in inner-city public schools, learning how to teach. She worked hard to motivate her students. With kindness and praise she encouraged them to learn. She drilled them in the basics. In time her methods bore fruit; the children responded, and vied with one another to show her how much they had learned. During these years, she discovered her own love of teaching.

However, as time passed, Marva saw the attitude of teachers change. "The longer I taught in the public school system," she writes, "the more I came to think that schools were concerned with everything but teaching. Teaching was the last priority, something you were supposed to do after you collected the milk money, put up the bulletin boards . . . straightened the shades and desks, filled out forms in triplicate, punched all the computer cards. . . ." As a result, apathy prevailed alike among teachers, administrators, and students.

Yet Marva persisted in pursuing her own proven method. But her very success with students created antagonism on the part of other teachers. When Marva could no longer take the harassment, she resigned. But teaching had become her life; it was in her blood.

The black "ghetto" of Chicago had been ravaged by the riots after Martin Luther King's death in 1968. Yet it was there that Marva lived with her husband and three children. And it was there, in 1975, that Marva started her own school. When the doors opened, she had only four 7- to-9-year-olds—her own daughter plus three public school misfits.

Marva Collins likes to begin a class, even of the very young, by reading and discussing Ralph Waldo Emerson's "Self-Reliance." Life is a struggle, she says. Every youngster is responsible for his or her own future. Each one will make mistakes, but a person who doesn't make mistakes won't make anything. She seeks to instill confidence in students by saying something nice to each of them every day. And she assures them again and again that they *can* learn.

Her first goal is to teach the children to read. Drills on phonics and syllabification are chanted over and over again. She reads aloud; she asks questions; she challenges the children to think, to speak up, to write, and to compare plots and characters in the stories they read. Through simplified versions of the classics she challenges youngsters to consider ethical and psychological problems. Reading leads, tangentially, to discussions of history, geography, and the profound moral teachings of the ages. After several months her students, most of them born and raised in the black "ghetto" of the inner city, are reading, often competing with one another to discuss Aristotle and Shakespeare. Quotations from the classics crop up in their papers and daily conversations.

The success of Marva's method has been astounding. As a result, she has received nationwide attention in the press, radio, and TV. In five years, her enrollment grew from four to 200. Yet Marva says she performs no miracles. She just works hard! This book shows just how hard. It relates her struggles with the establishment, starting her own school, and coping with expansion. It explains in considerable detail just how she teaches, even listing at the back the books she uses. Anyone who is teaching, who is considering teaching, anyone who is homeschooling, or who simply loves children, will find this book fascinating. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Join us in the pursuit of an ideal.

The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

Where have you been? If you've just discovered THE FREEMAN and have found some helpful ideas, you may want to see our studies regularly. If so, just use the form below to reserve your place on our mailing list. (Any individual in the United States is added at his request. For foreign delivery, extra mailing costs require a charge of $15.00 a year.)

Where are you now? If you're already on the mailing list, but have a new address, please use this form to let us know of the change and to minimize any delays in delivery.

Sorry, this is not a mailing card: please enclose in a stamped envelope.

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Telephone: (914) 591-7230

THE FREEMAN
IDEAS ON LIBERTY

☐ Please add my name to receive THE FREEMAN, a monthly study journal of free market, private property, limited government ideas and ideals; plus NOTES FROM FEE, a 4-pager devoted to libertarian methods, issued every other month.

☐ Enclosed is a donation of $_____ to help in The Foundation's work.

☐ Please change my address, as follows.

Name (Please print)

Street

City State

Zip Code

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"We must beware of the dangers that lie in our most generous wishes. Some paradox of our nature leads us, when once we have made our fellowmen the objects of our enlightened interest, to go on to make them the objects of our pity, then of our wisdom, ultimately of our coercion."

—LIONEL TRILLING

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

Non-profit organization
U.S. POSTAGE
PAID
Permit No. 4

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED